GOVERNMENT OF INDIA
NATIONAL COMMISSION ON AGRICULTURE

# INTERIM REPORT
# ON
# AGRICULTURAL PRICE POLICY

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NEW DELHI

FEBRUARY, 1975

# C O N T E N T S



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# INTERIM REPORT

# ON

# AGRICULTURAL PRICE POLICY

## SECTION 1

## INTRODUCTION

1.1 The terms of reference given to the National Commission on Agriculture include the study of the problem of prices in the context of a policy of incentives for agricultural production. While this aspect was receiving our attention, the Ministry of Agriculture and Irrigation made a special request to us to consider the agricultural price policy on a priority basis and make available an Interim Report on the subject.

1.2 In its request, the Ministry mentioned the following aspects for consideration:

(i) Ingredients of agricultural price policy.



(ii) To what extent, for the purpose of achieving production targets and a rational use of land and other production resources, reliance may be placed on the device of administered prices for agricultural products and on other methods, such as, policy for the supply of key inputs and credit at concessional or fixed prices and other non-price measures.

(iii) Relative roles of different types of administered prices (i.e., minimum support, statutory minimum, procurement/purchase and maximum prices) for achieving the desired increases in production, under different trading systems (such as free trade, partial control or levy, complete take-over of the trade). Should these prices be uniform throughout the country and/or over the entire period of a marketing season, or should these vary? In the latter case, criteria for determining the order of variation over space and time.

(iv) Different considerations which need to be taken into account in fixing the prices of individual agricultural commodities, e.g., items of inputs and input costs, changes in general price level, import/export prices in respect of commodities entering foreign trade, prices of consumer goods commonly used by the farmer, price parities between different crops and order of relative increases envisaged in their production, and the relative weightages which may be given to these factors in the determination of prices of foodgrains and commercial crops. To what extent, in addition to inter-crop parity, broad parity in the price structure of manufactured goods and agricultural commodities be brought about with appropriate base?

(v) The manner in which the existing arrangements for advising the Government in regard to prices of foodgrains and agricultural commodities can be strengthened. How far it would be desirable to provide statutory basis for these arrangements?

1.3 Throughout the late 1950s and much of the 1960s Indian agriculture has remained a scene of shortages in supplies of almost all agricultural commodities. With the evolution and adoption of high yielding varieties/hybrids of crops like wheat, rice, maize, jowar and bajra in the second half of the 'sixties, and the more extensive use of fertilisers and pesticides, irrigation, improved implements and farm machinery, the agricultural economy in respect of these crops appeared for a while to be moving from serious shortages to a near-self-sufficiency. A total (operational and buffer) stock of about 9 million tonnes of cereals could also be built up in June, 1972. But, even though the trend of production of these cereals may have moved more in line with the trend of demand, wide fluctuations in the production of these crops between a good year and a bad year continued. With the sharpening of general inflationary tendencies in the country and in the world and relatively dry spells and poor crops during the first half of the 1970s, the situation of commodity shortages has again recurred with even greater force.

1.4 It is difficult to project even approximately the behaviour of supplies of individual commodities and commodity groups over the next 15 to 20 years. Since technical change is difficult to forecast and the evolution of new seeds in a particular commodity cannot be foreseen with any certainty, the trend development of supplies cannot be correctly envisaged, not to mention short term or year to year fluctuations. Trends in demand, on the other hand, can, perhaps, be somewhat more reliably assessed.

1.5 Demand projections made by the Commission clearly indicate that the pace of agricultural development and modernisation has to be much faster if commodity demands are to be matched by internal supplies. The need for rapid development has been brought into a sharper focus by the behaviour of world output and the dwindling world surplus of cereals.

1.6 Side by side with the imperative need to develop agriculture and expand production, price stabilisation has assumed particular significance in the context of a markedly inflationary situation. Inflation is hurting the entire economy and creating serious imbalances. While depressed and unremunerative prices do not enthuse the producers to take to modern methods of cultivation and make the necessary investments and for which remunerative prices must necessarily be assured, the interest of both the producers and the consumers as well as the economy as a whole also demands that measures are taken to stabilise prices. In examining the problems of agricultural price policy, the Commission has taken into account all these requirements. In this Interim Report, we have indicated our approach to agricultural price policy for both food and commercial crops and the entire package of support price, procurement/purchase price, procurement and distribution of cereals, keeping in view, in particular, the various issues raised in the communication received from the Ministry. We have also dealt with certain aspects of food policy as are relevant to agricultural price policy. The Report also deals with the arrangements for advising the Government on price policy.

1.7 Government's policy, particularly in respect of procurement of cereals, has been subject to frequent changes in the recent past. Frequent revision of the policy does not contribute to sustained effort at production nor does it create a climate favourable to investment and improvement. Uncertainty about policy gives scope to pressure politics by interested groups. In this Interim Report, we have indicated a broad framework of agricultural price policy which, in our opinion, should hold good for the next 10 to 15 years. We hope that Government will now lay down clearly and firmly its basic policy to be followed in future years in the interest of sustained and orderly development of agriculture in particular and the economy in general.

1.8 In its examination of the problems of agricultural price policy, the Commission issued a comprehensive Questionnaire in order to elicit the views of Governments of the States and the Union Territories, farmers' organisations, employers' and workers' organisations, economists and national and

State political parties. The Questionnaire is reproduced at Appendix I. The Commission also referred the various issues to its Panel of Agricultural Economists, constituted under the chairmanship of Professor M.L. Dantwala, for its consideration and views. Appendix II gives the composition of the Panel. In formulating its recommendations, the Commission has taken these views into consideration.

## SECTION 2

## PRICE FIXATION IN THE RECENT PAST

2.1 In the recent past, agricultural price policies and allied instruments in India were evolved and implemented in the context of shortages and excess demand. With the deterioration of the food situation during the Second World War years, procurement and distribution of major foodgrains were first introduced. In order to ensure adequate supplies at reasonable prices, the mechanisms of restriction on movement of foodgrains from surplus to deficit areas, State purchases, levy and monopoly procurement, particularly in deficit areas, were made use of. Statutory maximum prices were fixed, but not strictly enforced. Also, assurances were given for State purchases at fixed prices of all grain offered for sale in the main assembling markets to prevent precipitous fall in the prices. Rationing and distribution of foodgrains at fixed prices through Fair Price Shops were also introduced in urban areas as a demand conserving measure and for making available foodgrains equitably. In particularly deficit rural areas too, a system of non-statutory or informal rationing was introduced.

2.2 In respect of commercial crops, floor and ceiling prices for cotton were introduced in 1943 and open market operations were resorted to in 1944 in order to lend support to the market. In the case of jute, acreages were sought to be regulated and maximum and minimum prices were fixed from time to time for raw jute. Similarly, for sugarcane, Sugarcane (Minimum Prices) Act, 1934 empowered State Governments to prescribe minimum prices for cane purchased by sugar factories. The minimum price of sugarcane payable by the factories was fixed for the first time on an all-India basis in 1950-51; and since 1962-63, it is being linked to the recovery percentage. No direct price controls were introduced in respect of oilseeds but their prices were sought to be regulated through indirect stabilisation measures.

2.3 Since the War years, there have been periods when the regulatory measures were relaxed or withdrawn depending on the then prevailing supply-demand situation. A systematic attempt at determination of producers' prices of major foodgrains and maximum wholesale and retail prices was initiated by the Foodgrains Prices Committee (1964), known also as the Jha Committee.

2.4 The evolution of policies and instruments was influenced to a large extent by the deliberations of different Committees set up from time to time including the report of the Krishnamachari Sub-Committee on prices of the Policy Committee on Agriculture, Forestry and Fisheries (1944). The Jha Committee recommended in its report the setting up of an agency to advise the Government, on a continuing basis, in respect of prices of foodgrains and other agricultural commodities in the perspective of planned economic development. The Agricultural Prices

Commission (APC) was accordingly set up in 1965. Since then, the Government has been fixing the minimum support prices for major crops taking into consideration the APC's recommendations. In regard to foodgrains, besides the minimum support prices, Government has been fixing procurement prices with a view to acquiring supplies for public distribution. The procurement prices, although higher than minimum support prices, were generally below the market prices.

2.5 The Agricultural Prices Commission has been making a distinction between the two sets of prices, viz., minimum support price and procurement price, keeping in view the objective of protecting the interests of the producers on the one hand and those of the consumers on the other. In devising the price policy, the APC has tried to keep in view the need to provide incentive to the producer for adopting improved technology and for maximising production, the desirability to ensure rational utilisation of land and other production resources and the likely impact of the price policy on the rest of the economy.

2.6 According to the APC, "while the farmer's year-to-year income is determined by the actual realised prices - in a free or controlled market - his long-term interest is sought to be served through the policy of guaranteed minimum or support prices. The realised price is either a free market price (not below the guaranteed minimum) or a price fixed by Government for its purchase/procurement operations. In the latter case, the purchase/procurement pricealso becomes, in a sense, a guaranteed support price but as a maximum, at least as far as Government's buying operations are concerned.

2.7 Although the APC has been making a distinction between the minimum support price and the procurement price, over time, this distinction got somewhat blurred at the operational level, particularly in the years of good production, when procurement price in effect served the functions of both minimum and procurement prices and the Government purchased at the procurement price whatever was offered to it. The APC, however, felt that the distinction between the two sets of prices was important in the long-term context; and this has again been revived.

2.8 In formulating the price policy, the considerations, which have been taken into account by the APC, include, among others, the prevailing economic situation, prospects of production, requirements of the public distribution system, the level of market prices, the minimum prices announced for the previous season and the cost of production, etc. In some years, higher procurement

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* Report of the Agricultural Prices Commission on Price Policy for Kharif Cereals for 1965-66 season, 1965, p.1, Department of Agriculture, Ministry of Food and Agriculture, Government of India.

prices for kharif cereal crops were justified on the ground of maintaining parity with cash crops. In recommending the guaranteed prices for wheat for the 1974-75 season, the APC gave weightage to the then existing difficult food situation in the country and the need to replenish buffer-stock and came to the conclusion that wheat price to be guaranteed before the season should be a fair approximation to the procurement prices under normal circumstances. Such an approximation could be reached by

a) adjusting the procurement-cum-support price announced for the earlier season for the subsequent changes in input price; and

b) adding to this a margin to allow for the fact that the take-over by the Government of the wholesale trade in wheat required the cultivator to part with his entire marketed surplus at a fixed price, whereas, under the dispensation of a freer market, he could realise a higher price than the procurement price for his produce in a situation of shortage.

In recommending the price policy for kharif cereals for the 1974-75 season, the APC took into consideration, among others,

a) the paramount need to contain inflation and, therefore, the desirability to exercise utmost restraint in effecting any increase in the administered prices;

b) the already high level of such prices which contained a cushion to absorb the incidence of increase in the prices of purchased inputs; and

c) the desirability to sustain the farmer's incentive to improve the productivity of the cereals.

2.9 In deciding upon the adjustment required for the procurement prices of **coarse** cereals, the APC had taken into account the following:

a) there is need for a step-up in the procurement of coarse cereals;

b) there are sharp fluctuations in their production and prices:

c) the price elasticity of demand being low, even a small variation in production generates a sharp fluctuation in prices;

d) failure of the crop in the hard core centres adversely affects the prices of other cereals; and

e) there is need to check the adverse effects by building up sizeable buffer-stocks.

2.10 The commercial crops presently dealt with by the APC are cotton, jute, sugarcane and some of the oilseeds. Since 1967-68, the APC has been making annual recommendations with regard to groundnut. Announcement of any support/ purchase price for this commodity has, however, not been considered necessary so far in view of the prevailing high level of prices. In addition, the APC has also been recommending indirect price stabilisation measures. Most important of these include regulation of bank advances, adjustment in the export-import policy, improvement of the yield and augmentation of the production of various oilseeds including summer groundnut and progressive utilisation of cotton seed, rice bran and minor oilseeds of tree origin for extraction purposes. At the same time, with a view to encouraging the production of soyabean and sunflower, the APC has suggested that since these are new crops, they require vigorous promotional efforts including provision of an assured market. Purchase prices of soyabean were also recommended.

2.11 In respect of cotton and jute, the APC has been recommending only the minimum support price. For sugarcane, minimum prices payable by sugar factories were recommended. The prices of raw cotton had been sought to be controlled through a system of fixation of floor and ceiling prices during the period 1943-44 to 1966-67. But from 1967-68 this system was discontinued. On the recommendations of the APC, Government announced the minimum support prices for standard and other varieties of raw cotton during the seasons 1967-68 to 1970-71. No support prices were fixed for 1971-72 for the reason that the market prices were ruling very much above these levels; instead, purchase prices were announced for kapas only. For the 1972-73 season, support price for the basic variety of kapas was fixed, but in the following season no support prices were announced in view of the prevailing high prices. Apart from the direct price control, efforts had been made in the past to influence the price of cotton through various indirect measures. The Cotton Corporation of India was established to impart greater stability to cotton prices through its purchase and sale operations.

2.12 In regard to jute, the Government, on the recommendations of the APC, fixed the minimum support prices on a statutory basis for the first time during 1972-73 season; however, during 1974-75 season, a departure from the existing practice was made and statutory minimum prices were fixed uniformly for all upcountry markets, instead of fixing them with reference to Calcutta, in order to provide effective support to the growers. Earlier, following the recommendations of the APC, the Jute Corporation of India was set up with a view to making the support price effective through its purchase operations.

2.13 The Agricultural Prices Commission, while suggesting the minimum support/procurement price, has been taking into consideration the varietal differences. Also, earlier in the case of paddy, different prices were fixed for different regions. But the latest trend is to fix only one price having all-India coverage. Moreover, the principles governing the fixation of minimum support prices for cereals have been extended to cover commercial crops as well.

## SECTION 3

## APPROACH TO AGRICULTURAL PRICE POLICY

3.1 Various Committees have in the past examined the question of agricultural price policy. The Five Year Plan documents have also considered this issue in the context of the price policy to be followed during the Plan periods. These reviews stress, among other things, two important aspects of price policy, viz., price stabilisation is indispensable in the context of planning and price policy should seek to maintain a certain balance between relative prices in various sectors. To attain these objectives, measures of direct control and/or fiscal and other devices to the extent required have been emphasised. Keeping in view the interests of both the producer and the consumer, it has been stressed that a policy of price stabilisation must keep in view certain maxima as well as certain minima. These considerations have so far provided important basis for economic management in the country.

3.2 A favourable price climate, which ensures remunerative prices to the growers, is a necessary condition for the required investment in agriculture and adoption of modern technology without which agriculture cannot develop. At the same time, the agricultural price policy has to be conceived also in the context of the general price situation in the country.

3.3 Agricultural prices are very volatile. When the balance between demand and supply is precarious, even a small rise or fall in production causes wide fluctuations in prices. If a decline in production takes place at a time of sharp monetary inflation/expansion, the price rise may become very steep. accentuated by hoarding and speculation. Occasionally, a succession of two good crops may lead to a sharp decline in prices, making production uneconomic and discouraging investment and innovation. Both these situations require intervention. While the farmers endorse the price support measures, they do not look with favour at any attempt to control prices or to acquire a portion of their marketable surpluses at below the market prices, when prices are high because of a seasonal shortfall or chronic shortage in production. It is, therefore, necessary to fully explain the rationale of the price policy.

3.4 The general price level in India is influenced, to a very great extent, by the behaviour of prices of agricultural produce, particularly of foodgrains. This is natural in a country where agriculture contributes about 43 per cent of the national income. The weightage given to agricultural commodities in the Index Numbers of Wholesale Prices is also large (332 out of 1000). It is also known that for most of the families, expenditure on food articles constitutes over 60 per cent of the family budget. Therefore, an uptrend in the prices of foodgrains exerts inflationary pressures on the prices of various goods and services through wage and cost push factors and results in the rise of the general price level affecting the economy as a whole.

3.5 This is what has happened in the country. For the last few years, the prices of foodgrains have been rising continuously following shortfalls in production in consecutive years. It is generally admitted that foodgrains and agricultural raw materials like cotton, oilseeds, etc., have been the price leader and led the way to a general rise in prices. The deleterious effect of the rise in prices on the economy is all too evident. In evolving the agricultural price policy, therefore, note has to be taken of the prevailing economic situation and the probable course of production and prices in the near future. The price policy should not come in the way but should aid in the fulfilment of the overall economic policy of the country. Stabilisation of prices is also essential to ensure growth with stability. This is particularly relevant in the present inflationary situation when the Government's efforts are designed to contain inflation.

3.6 With the growing population, the demand for food is increasing rapidly. Likewise, the demand for agricultural raw materials for processing, manufacturing as well as exports is also going up. Planning for agricultural development has to see to it that favourable conditions are created for securing an orderly increase in supply to match the growing demand. But the reliance on higher prices as a major incentive to augment production misses the point that the aggregate (sector) supply response to price is quite weak. In a situation where the country is experiencing shortage in respect of most of the commodities, the reliance on price as the principal mechanism for stepping up production may ultimately amount to increasing the prices of most of the commodities and their inputs. Such a policy will just add to inflation, without yielding higher production.

3.7 There is a widespread belief that high prices bring forth high production and higher incomes. It has been argued that the relative stagnation in foodgrains production before the introduction of new technology was partly due to artificially low prices maintained through the concessional imports of PL 480 grains. The success of the new technology is also attributed to the relatively high prices in the latter half of the sixties. A case is thus made out for higher prices to boost agricultural production. Others have disagreed with this view and have pointed out that the wheat revolution had taken place in a period when there were concessional imports of wheat. If the matter were so simple, all that the planning authorities have to do is to ordain an all round rise in prices. While favourable prices do stimulate entrepreneurial efforts to augment production, several other factors also have a determining influence on production. In regard to agriculture, it should be recognised that the low agricultural production reflects the fact of generally low productivity in the country. It is the presence of such factors as assured and controlled supply of water, high-yielding varieties of seeds, equitable tenurial conditions, etc. which have a greater impact on output. The remedy to low production thus obviously lies in greater and purposeful investment, better skill formation, adoption of improved practices and improved organisation so that productivity increases all round and farmers, along with the rest of the community, come to enjoy a better standard of living. If this basic fact is ignored and farm prices are raised indiscriminately, it would merely raise costs for everybody, release the forces of inflation and erode the possibility of capital formation in all sectors. However, this is not to rule out the case for selective shifts in terms of trade to stimulate, or discourage, output in particular commodity, but this has to be done with moderation, as otherwise the basic inter-relationships of the system will get disturbed affecting the economy adversely.

3.8 In the coming years, while efforts should continue to be made to supply larger quantities of inputs like fertilisers ~~and quality~~ seeds, it is really the change in technology, i.e., the change in the quality of inputs, such as new seeds, and the change in input combinations, that holds the key to higher production. Increase in profitability resulting from an enhancement of product price is less potent and less reliable as an instrument for influencing farm decisions to enhance acreage and production. An increase in profitability unrelated to cost reduction does not lead to any major shift in acreage to the crop concerned, nor to a substantial increase in output. This is because, in the absence of improved technology, production is susceptible to wide fluctuations. In recent years, for instance, several non-food crops such as cotton, groundnut, other oilseeds and also food crops like pulses have experienced steep increases in prices but the improvements in profitability that might have arisen from such price enhancements have not led to any major acreage shifts into these crops. This is because while the price level of these commodities is rising, price variations have also got enhanced. Price variations are, in fact, a measure of uncertainty in profitability and large variations cut into profitability. In other words, between two crops showing the same degree of profitability, if one had a lower and the other a higher price variation, the former would, in fact, make a greater impact on the producers' choice than the latter. This is the reason why many commodities with high variability in prices have not found favour with the producers despite apparently high profitability. On the other hand, commodities which have recently experienced technological change, such as improved seed, have gained in terms of acreage or production from other commodities which have not experienced such improvement. For instance, it has been noticed that wheat, rice, maize and bajra, all of which have undergone different degrees of seed improvement, have gained in acreage from other crops like cotton and pulses. The important point seems to be that emerging technological improvement reduces the cost of production either in absolute terms or, more often, as a percentage of the value of output of the crop in question. Moreover, technological change is a cushion against too much variability in a crop's production. Some of the hybrids are generally tolerant to the vagaries of weather; so do fertilisers and pesticides and irrigation act as cushion against several crop hazards. Thus, the change in technology and the use of new inputs in new combinations are not only cost-reducing and profit-enhancing but are also generally accompanied by smaller variability and larger and more durable profit.) Application of improved technology thus gives larger and surer profit (both private and social).

3.9 The improvement in income of the producers of agricultural commodities through technological means as envisaged above and higher productivity is more desirable than through higher prices. (Larger income which producers may get as a result of higher prices is in effect a transfer payment from the consumers to the producers of these commodities. But technological improvement benefits the producers as also the society since more output is obtained from the same productive resources. Further, higher prices would benefit farmers who have marketable surplus, and would thus accentuate income inequality. The smaller producers, who are often net purchasers of grain, would be worse off in the process. But the new technology being neutral to scale has the potential to benefit both large and small producers.

3.10 The future of Indian agricultural policy certainly lies in an attempt to introduce improved technology in commodity after commodity, with a view to reducing variability as well as cost and enhancing profitability. Efforts in Research and Development (R&D) in the direction particularly of evolution of new seeds of commercial crops like cotton, groundnut, other oilseeds, fodder, etc. and of food crops like pulses hold out considerable promise for greater profitability and providing the necessary incentives for higher production. When suitable seeds and a profitable input combination have already been found for a crop, it will be proper to propagate them through extension and other publicity media in areas and among groups which have not so far adopted them. Investment in such extension work is as important as investment in R & D.

3.11 If, as a result of greater investment, technological innovation and better organisation, the overall supply comes into balance with the demand in all but a few commodities, manipulation of the relative prices could be considered to influence desired shifts in acreage and output In such a situation of overall balance, when the trend demand for a particular commodity is rising at a faster rate than the trend supply, a shift in its relative price could be permissible to curb demand and augment supply; a shift of acreage to the shortage commodity could be encouraged through either the price mechanism or other means; and R&D efforts could be intensified in respect of the commodity so that technological change reduces its cost of production per unit, enhances its profitability and augments its production. When the long-run supply trends are more favourable than the long-run demand trends of a particular commodity, an exactly opposite policy may have to be considered to bring about a balance. The basic elements may be a lower relative price of the surplus commodity to augment demand and discourage output, shift of acreage from the surplus commodity, exports, if possible, and intensification of R&D efforts in any shortage commodity. Additionally, building up of a buffer-stock may be considered to prevent a sharp collapse in price and severe losses to farmers.

3.12 Agricultural price policy relying heavily on relative prices could be considered in a situation in which most of the commodities are in balance and shortage or surplus is restricted to one or two commodities. But the situation in the country is entirely different. As there is hardly any commodity in surplus, the scope for manipulating the relative prices is rather limited. In the next 10 to 15 years the shortage or near-self-sufficiency in most of the commodities is likely to continue in spite of various development efforts. The agricultural price policy will, therefore, have to take note of this situation, which is often accentuated by speculative hoarding.

3.13 The major aim of agricultural price policy should be to correct distortions, which are socially or economically harmful and which emerge from time to time from the imperfections of market mechanism. Such price regulation becomes necessary to safeguard the interests of producers as well as consumers. In the situation of a bumper harvest and the consequent sudden and sharp fall in prices, the Government has to intervene through price support operations.

On the other hand, when in a general situation of inflation, a shortfall in production results in a steep rise in prices, particularly in essential commodities like foodgrains, the Government has to protect the consumers. This is all the more important in a country like India in which a large proportion of the population lives below the poverty line. In such a situation, a system of public distribution has to be operated to supply reasonable quantities of foodgrains at reasonable prices, particularly to the vulnerable sections of the population. Such a system of public distribution necessarily implies procurement from domestic production of sufficient quantities at reasonable prices. Since the ruling market prices at such times would be beyond the tolerance limit of the majority of consumers, the procurement of a certain proportion of marketable surplus will have to be at below the prevailing market prices. Under this system, the rest of the marketable surplus would be permitted to be sold in the open market, and it is a fair assumption that the weighted average price received by the producer from the sale of the levy and the non-levy portions of marketable surplus may not be less than the price he would have received in the absence of the levy. It must be emphasised that supporting the price above the likely level of market price in times of abundant crops and procuring a portion of marketable surplus at below the market price in times of scarcity are parts of the same composite price policy. Since the farmers benefit from the enforcement of minimum support price, they should also agree to the procurement system intended to make available foodgrains to the vulnerable sections of the population at reasonable prices. Similarly, if the consumers wish to obtain foodgrains at prices below the market levels, they have to agree to the system of minimum support prices.

3.14 Projections of demand and supply of agricultural commodities show that in most of the commodities shortages will continue for many years to come. Public distribution of essential commodities will, therefore, have to be a long-term or semi-permanent feature of economic management in the country. The procurement and distribution policy will have to be devised in this context. In fact, while shortages last, it is important to widen the magnitude and scope of the public distribution system.

3.15 Both the Centre and the States have to share the responsibility for an equitable distribution of the available supplies of food on a national basis. A rational food management requires, in the first place, a realistic assessment of the requirement and availability. A public distribution system can function efficiently, when, based on such assessment, appropriate arrangements are made to obtain adequate supplies and route them through the system to needy areas and population. We, therefore, recommend that the Department of Food in the Ministry of Agriculture and Irrigation should prepare, in consultation with the Agricultural Prices Commission and the States, a National Food Budget every year after taking a realistic view of the requirements of the public distribution system, production, stocks and imports, if need be. The Budget should preferably be prepared in November when reliable estimates of kharif crop would be available. It should then be reworked in March when crop estimates for rabi become known. The targets for internal procurement of cereals should be laid down on the basis of the Budget.

3.16 Once adequate quantities are obtained at prices, if need be, at below the market price to subserve the requirement of the public distribution system, the rest of the available supplies may be allowed to be sold at free-market prices in the usual marketing channel. The dual pricing and dual availability system in vogue in this country in respect of sugar and important cereals is, therefore, well conceived in its essentials and we recommend that it should be continued until an overall balance between supply and demand is achieved on a durable basis in these commodities.

3.17 The inter-commodity parity approach for determining the relative prices of different commodities, though rational on the face of it, has many pitfalls. Different commodities suffer setback in production in different years. When this happens, market prices rise, sometimes steeply. The administered prices of the shortage commodity may also be increased in such a situation. This is however no reason why the prices of commodities whose production has not suffered a setback should be correspondingly raised on grounds of parity. It should also be noted that no one argues that prices should be adjusted downwards in parity with prices of a commodity, which, because of abundant production, have fallen. The one-way -upward adjustment- invocation of the parity principle will generate successive rounds of price increase.

3.18 If the rise in prices of a commodity is due to a temporary or a transient reason, such as sudden failure of harvests or a boom in international prices, the situation should be allowed to correct itself through market mechanism - except when the commodity involved is an essential item of mass consumption or otherwise vital to economic stability.

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Such transient declines in production and the consequent rise in prices do not lead to any lasting shifts in acreage. For such shifts in acreage to occur, the rise in price has often to be substantial and more than the profitability of the substitutable crop.

3.19 If, however, the fall in prices is due to secular reasons, such as a cost-reducing technological innovation leading to higher production, there is hardly any justification for upward adjustment in line with the erstwhile parity, because the lower price will not have affected the profitability of the crop. And it is but proper to permit the community at large to benefit from the application of cost-reducing technology. In any case, if the price drops suddenly and too drastically, the device of support prices will be available to protect the producer and sustain production.

3.20 Apart from these considerations against the rigid adherence to the parity principle, it would be very difficult to arrive at an agreed decision regarding the base year with reference to which parities should be maintained. All commodities may not achieve a reasonable balance between supply and demand in the same year which could be regarded as a base year. It may be different for different commodities, making a decision on the base year extremely difficult. Further, each commodity grower will insist on adopting a year most favourable to him, which, by definition, will be unfavourable to the growers of other commodities.

3.21 There is sufficient empirical evidence to show that the selection of the crop and its production are dependent more on traditional factors such as suitability of the land for the crop and rainfall and climatic conditions at the time of sowing rather than on price. In general, weather conditions play a greater role in the farmer's production decisions than relative prices. But it is also true that in some commodities, the correlation between the relative prices and acreage is positive, as in jute and paddy. Considering all these aspects, the Commission is of the opinion that in view of the limitations of commodity price parity approach under Indian conditions, it cannot be made the basis for fixing agricultural prices. However, in respect of a few commodities e.g. jute and paddy), which are more sensitive to changes in relative prices, parity can be a relevant consideration, but not the basis, for fixing their prices. Appropriate parity relationships and their effect on acreage should be kept in view before fixing the prices of these commodities.

3.22 It has been sometimes argued that international prices should be taken into account while determining the domestic prices. Once again, this argument is invoked when the international prices are higher than domestic prices; not when they are lower. For several years during the 1960s, international wheat prices were lower than domestic prices. No one argued that domestic wheat prices should be lowered, nor did the Government countenance any such action. Instead, it passed on the benefit of lower priced imports to the consumer through a pooled price for public distribution.

3.23 Normally, a commodity, the international prices of which are higher than domestic prices, will not be imported. But if such imports become inevitable for the sustenance of the national economy- as in the case of oil and foodgrains - to raise the domestic prices to international levels would tantamount to accentuating the imported inflation. The right policy once again would be to resort to pooling of prices for the consumers.

3.24 There is no doubt that an integrated price policy involving inter-sectoral prices is highly desirable in the interest of balanced and planned growth of the economy. But however desirable, it may not be possible to bring about such an integrated price structure unless the economy - both production and prices - is totally controlled In an agricultural economy, susceptible to vagaries of rainfall, fluctuations in production are too frequent and sometimes too severe to permit a stable link (parity) between prices of agricultural and non-agricultural commodities. Besides, such a link may not be necessarily to the advantage of the agricultural producer. For, it will be seen from the data given in Appendix III that during 1964-65 to 1973-74, the index numbers of wholesale prices of agricultural commodities as a group have been higher than the corresponding index numbers for non-agricultural commodities.

3.25 The only legitimate parity relationship is between input and output prices. Apart from temporary aberrations, the output prices cannot for long remain out of alignment with the package of input prices. If a reliable weighting diagram is available, such adjustment would be possible.

3.26 It is often suggested that the prices received by the farmers should have some relation with the prices paid for the consumer goods commonly used by them. The demand by the farmers for such linking arises because of the rising prices of these articles. It is also argued that as the organised labour is compensated for increases in the cost of living, so the farmers interests should be safeguarded by regarding such parity considerations as one of the bases for price fixation. Considering cash expenses alone, increases in the prices of cloth, kerosene, sugar, and oils, etc. affect the farmer's budget. While we fully recognise the difficulties which the farmers face when the prices of articles of common use continue to rise, it should also be appreciated that any automatic linkage between prices received by the farmer for his produce and prices paid by him for the consumer goods will only feed the vicious circle of cost-price inflation and will not only not contain the problem but make it worse for everybody including the farmers. We have already mentioned that any rise in food prices sets in motion a chain reaction affecting the economy as a whole. Since food articles occupy a major portion of an average family's budget, a rise in food prices affects the non-farmer families, particularly the rural and urban poor, more than the farmer families who are producers of grain and vegetables, and are, therefore, protected to a greater extent against erosion of their standard of living. Moreover, beyond the organised labour sector, there is a large sector of self-employed and unorganised labour, who do not get any protection against rising prices. The best way to tackle the problem is to stabilise the prices of non-agricultural consumption goods, increase their production and ensure their equitable distribution. At the same time, we suggest that an Index Number of Parity between the prices received and prices paid by the farmers both for domestic and farm expenses be constructed so that a watch can be kept on the behaviour of the parity and remedial measures taken whenever the parity gets unduly against the farmers.

3.27 Subsidies on inputs are often suggested as a measure of incentive to higher production as they tend to reduce cost and increase the profitability of farming. The experience in the country, however, is that subsidies do not work to the advantage of the farmers. In many cases they do not reach the right people. Also, generalised subsidies do not lead to efficient use of resources and once they are given, resistance develops against their withdrawal. In paragraph 3.25 we have suggested that the prices of agricultural commodities should take into account changes in the entire package of input prices. If this is done there should not be any need for subsidy on inputs when their prices go up. We feel that subsidy on inputs should, by and large, be avoided.

3.28 Input subsidies, however, can play a promotional role in specific situations. When a new crop or a practice is to be introduced and popularised, it may be necessary to give the grower some additional incentive for him to take new risks. For such promotional effort, input subsidies may be considered. Even in these cases, however, it will be preferable to provide a time-bound subsidy so that it can be withdrawn after it has served its purpose.

3.29 To these general observations, we would like to make two exceptions. One is for the small and marginal farmers and the other for difficult areas in the country. The small and marginal farmers may find it difficult to procure enough inputs if their prices are high. Moreover, as foodgrains produced by them are largely for home consumption, lower input prices may help them considerably and enable them to use the inputs to a greater extent. Subsidy on inputs in their case may have to be viewed on egalitarian considerations irrespective of product prices. This will be particularly relevant when there is a sudden spurt in input prices.

3.30 In order to encourage the use of inputs in adequate quantities in hilly and other difficult areas, it may be necessary to subsidise transport cost to bring down the price of delivered inputs, which would have otherwise been higher and would have discouraged their use, thus affecting production.

## SECTION 4

## MINIMUM SUPPORT PRICES

4.1 The objective of minimum support prices is to provide an element of stability in agricultural pursuits. Sudden and precipitous fall in the prices of agricultural commodities is an uncertainty often associated with the farming activity. The support is in the nature of insurance over a relatively long period. By its intervention in the market and its guarantee to purchase all quantities offered for sale at a price above the free market price which would have otherwise prevailed, the Government gives an assurance to the farmer of a fair return on his investment and of covering his risk in the venture. He is thereby saved from losses which he would have otherwise incurred had the market been allowed to function freely. This policy of intervention removes the disincentive effect of uncertainty and creates a stable price climate for investment and production. It is obvious that the agricultural price policy must in all circumstances embrace within its core a policy of offering minimum support prices for the principal crops.

4.2 In order that the minimum support price provides the necessary inducement to the farmer to stay in business and encourages him to take to improved technology through necessary investment, the price has to be fair enough; and to be fair, it should cover the cost and yet leave the farmer with a reasonable margin of profit. However, the support price for any crop need not provide much beyond a reasonable rate of return over cost.

In this matter one could be guided by the general rate of profit-taking in the economy as a whole and guarantee a return to the farmer which is only marginally higher than the general rate of profitability in the economy. It should, however, be noted that farmers cannot be made rich simply by raising agricultural prices because the input prices would catch up soon. At the same time, he should not be made to suffer a loss having produced the commodities on account of market uncertainties. We have earlier emphasised that the income of the farmer can be raised steadily only through increased productivity.

4.3 The alternative principles relevant to the question of deciding the support price are cost of production, movement of inter-crop market price ratios and the criterion of realised prices. While the cost of production takes into account cash and kind costs incurred in the process of production, the principle of movement of inter-crop market price ratios seeks to indicate the degree of divergence from the initial relationships so as to provide a guide for adjustments in relative prices. The criterion of realised prices refers to the method of fixing prices on the basis of market prices which prevailed in the immediate past. The inter-crop market price ratios being variable cannot be used for fixing the support prices which have to be stable and should convey an assurance of continuity. This method of inter-commodity parity is not workable due to the limitations we have referred to in paragraphs 3.17 to 3.19. The criterion of realised prices is also not considered suitable because, in a period of scarcity, prices would tend to be high. Such prices would, therefore, be an unsuitable guide to the prices for subsequent years, when production may be relatively good. Moreover, in an inflationary situation, the application of this method would result in continuously rising support prices.

4.4 The following four types of cost of cultivation/production have been defined in the Farm Management investigations and other cost studies:

| | | |
|---|---|---|
| Cost A1 | : | All actual expenses in cash and kind incurred in production by owner operator. |
| Cost A2 | : | Cost A1 + rent paid for leased-in land. |
| Cost B | : | Cost A2 + rental value of owned land and interest on owned fixed capital excluding land. |
| Cost C | : | Cost B + imputed value of family labour. |

Of these, for purposes of price policy, Cost C is more relevant. This is because it is comprehensive and covers all the items of expenditure incurred in cash or kind and takes into account the imputed value of owned resources employed for production. whereas the other three types cover the cost only partially. However, there are differences of views in respect of the method of valuation of family labour, the desirability of including the remuneration towards managerial expenses of the farmer even when such expenditure has not been incurred as also of making an allowance for risk and uncertainty as a specific item of cost.

4.5 The family labour is presently valued in the studies under the Comprehensive Scheme for Cost of Cultivation on the basis of the wage rate for attached farm servants. However, three other views have been expressed before the Commission regarding the method of valuation of family labour.

4.6 The farmers' representatives have argued in favour of valuation on the basis of the prevailing wage rates for casual labour, which are higher. What is generally over-looked in this approach is the fact that the casual labour gets higher wages only during peak seasons and is out of employment for many days in a year, when he does not earn any income. If the wage rate of casual labour has to be the basis, then the average daily wage with reference to his annual income, and not the daily wage he actually receives, would be relevant. Viewed thus, the value of family labour, when evaluated on the above basis, may not be significantly higher than when it is based on the wage rate for attached labour.



4.7 Another suggestion made to the Commission is to take into consideration comparable wages for rural industrial workers. Here also difficulties come in the way. The wage rate will be necessarily high in industries which are fairly organised and where wages are protected through trade unionism. Insofar as the unorganised rural industries are concerned, many areas do not have comparable rural industrial workers. Even where there are some rural industrial activities, the wage rate for unskilled labour may not be significantly different from the rate at which the attached labour is paid.

This will be particularly relevant in areas which are surplus in labour. As it is, most rural areas are surplus in labour and exceptions may be found only in pockets of intensive agriculture.

4.8 The third view is that the family labour should be evaluated on the basis of the statutory minimum wage rate. But the minimum wage rates in most areas are out of date and lower than the going wage rates for attached labour. In Haryana, in 1971-72 the wage rate for attached labour was Rs. 6 compared with the statutory minimum wage rate of Rs.5 fixed in 1969. Similarly, in Punjab the wage rate for attached labour in 1971-72 was Rs.4.50 when the statutory minimum wage rate was Rs.3 fixed in 1963.

4.9 Considering all these aspects, the valuation of family labour on the basis of the wage rate for attached labour, in our view, appears to be in order.

4.10 Insofar as the managerial cost is concerned, the bulk of the landowners will be managing not very large holdings, particularly after the enforcement of the legal provisions relating to land reforms. When the cultivator himself is the manager, there is no separate management cost. His income after deducting all relevant costs including imputed cost of his labour, would, in fact, be a return to his managerial functions. No special allowance, therefore, need be made in the cost on this account, when it is not actually incurred by keeping hired managers.

4.11 Both the cost of cultivation, which is calculated on per hectare basis, and the cost of production, which is calculated on per quintal basis, are influenced by seasonal factors; the cost of production varies more widely depending upon the actual production. The difficulty could, however, be got over to some extent if an average of three years' cost is taken into account.

4.12 The demand of the farmers that the prices should cover their cost of production implies that the price received by them should be higher than the cost incurred by them in that very year. Prima facie, it is not possible to take into consideration the current year's cost because the data on costs in absolute terms for the current year will not be available at the time of sowing. While using the current year's cost is not operationally feasible, the preceding three years' average cost may provide a workable alternative. However, even this method is not free from defects in a situation when dynamic changes take place in the adoption of new technology or when input prices are changing fast.

4.13 Apart from the questions relating to the components of cost, there are other problems in the use of cost data. One important difficulty is whose cost should be considered. There is no unanimity of views on this crucial question. Given a set of actual cost of production figures for a representative and randomly selected sample of cultivators, alternative approaches suggested are to take the average cost of production of all the cultivators or the average cost of production of the efficient farmers or the average cost of production of the producers with marketable surplus or the bulk line cost representing a stated percentage of production, area or number of cultivators.

4.14 Average cost can have relevance for price determination only if the scatter of cost is fairly small. Estimates of costs of production have usually shown wide variation among different cultivators. Where the scatter is wide, the average does not solve the problem of a representative cost. Moreover, it is possible that a number of farmers may have costs which are higher than the average cost. For example, an analysis of the data collected for wheat in Punjab under the Comprehensive Scheme for Cost of Cultivation studies shows that the average cost does not cover a considerable proportion of the farms and area under the crop. An average cost of Rs.61.04 per quintal in 1970-71 leaves out more than 52% of farms and almost 50% of area and nearly 38% of output of wheat in Punjab. Similarly, in 1971-72 an average cost of Rs.59.71 per quintal does not cover about 54% of farms, 49% of area and 40% of output in the same region. This makes the average cost of production an unreliable guide.



4.15 The method of average cost of production of efficient farmers tries to reward efficiency and discourage inefficiency but the problem arises with regard to the question of defining efficient farmers. Big farmers need not necessarily be the efficient farmers. Efficiency is a relative concept. Various measures of efficiency have been employed in the Farm Management studies. An efficient farmer can be defined as one who produces a unit of output at low cost. Efficiency can also be measured through maximum yield per unit of input. But just as farmers with low unit cost but also low per hectare yield of output cannot be considered as efficient, so also farmers getting high yield per hectare but incurring high cost of production cannot be regarded as efficient. Further, the question of efficiency of a particular activity on the farm is related to all the activities on the farm as a whole. If the efficiency is to be measured with reference to only one of the above criteria, a different set of farmers would emerge with each efficiency measure. Moreover, technological efficiency (in the sense of input-output) has to be distinguished from economic efficiency. Given the techniques of production and the structure of farm business, majority of the Indian farmers may be meeting the economic efficiency criterion but the same may not be true with reference to technological efficiency. In view of the difficulties stated above of using the cost of production of efficient farmers, this alternative has not gained much acceptability.

4.16 The alternative of average cost of production of the producers with marketable surplus, as suggested by some, is also not free from difficulties. The farms of these producers are generally above a certain acreage and, therefore, a large number of smaller producers would be left out if this method is considered.

4.17 Some have suggested that in a shortage situation, the minimum price has to be above the maximum cost to induce even some of the relatively inefficient farmers to increase output. For this, it is the marginal cost of production which may need to be covered rather than the average cost. Bulk line cost is, therefore, suggested which would cover the actual cost of farmers producing a major part, say 85%, of the total output. When the farms are arranged in an ascending order with reference to per unit cost of production, the bulk line cost is the marginal cost of producing the 85th unit of output assuming that a total of 100 units of the commodity is being produced. Thus, very few producers whose cost of production exceeds the bulk line cost will be adversely affected. Serious misgivings have, however, been expressed about the suitability of the bulk line cost. It is argued that there is no basis for the assumption that the bulk line cost will result either in maintaining or in enhancing production. The choice of a cost figure covering 85% of production is largely arbitrary, as it is not clear why 85% is more appropriate than any other percentage figure. The figure of 85% has been endorsed merely because it is considered more appropriate than 50% and partly under the presumption that the producers maintain the same relative positions on the cost curve every year. But the assumption that individual producer incurs the same cost year after year is not valid. Moreover, the bulk line cost approach based on past cost structure would lose much of its importance as it assumes that the technique of production remains constant. A particular difficulty in the bulkline cost concept is that different estimates of cost would emerge depending on whether the coverage is related to output, area or number of holdings. For these reasons, this approach has not been favoured by many.

4.18 The need for working out an average arises out of the heterogeneity and the large extent of variation in unit costs from farmer to farmer. Several factors influence the variation. These are:

(i) inherent variability in resource endowment and fertility of the area which influence productivity;

(ii) variability in the application of inputs and the prices of these inputs;

(iii) variability in the efficiency of the factors of production individually or in combination; and

(iv) variation, even if to a smaller extent, implicit in the process of imputation of values to owned factors, e.g., own land, family labour, etc.

These factors result in wide variation in costs between different States, regions, districts, taluks and even villages; between different sizes of holdings; between different varieties of the crop, the high yielding and local, improved and ordinary; between irrigated and unirrigated holdings; between progressive farmers and the traditional ones; and so on.



4.19 That the costs vary widely from area to area will be evident from the table below:

Table 1 : Cost of production of wheat, 1971-72

| State | Variety | Cost of cultivation* (Rs per hectare) | Cost of production. (Rs.per quintal) |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| Haryana | High yielding | 1,048.43 | 49.23 |
| | Local | 952.81 | 54.04 |
| | Total | 1,039.13 | 49.53 |
| Punjab | High yielding | 1,586.34 | 59.51 |
| | Local | 1,309.28 | 71.27 |
| | Total | 1,578.26 | 59.71 |
| Uttar Pradesh | High yielding+ | 1,110.83 | 48.72 |
| | Local | 759.10 | 53.33 |
| | Total | 1,088.90 | 50.38 |

* Net of value of by-product. +Including improved varieties.

Source: Comprehensive Scheme for the Studies of Cost of Cultivation

The above data further show that variation in cost is also dependent upon the type of seed used. Wide variation in cost is also seen in the same State between irrigated and unirrigated crops and even in the case of irrigated variety depending upon the source of irrigation. The data on cost of production of wheat in Haryana for the year 1971-72, presented in the following table, illustrate the point.

Table 2 : Cost of production of Wheat in Haryana for 1971-72, according to source of irrigation.

| Source of irrigation | Cost of production (Rs per quintal) |
|---|---|
| Irrigated: | |
| Tubewells* | 54.21 |
| Tubewells* and canal | 48.55 |
| Canal | 42.75 |
| Other sources | 55.25 |
| Unirrigated: | 55.80 |

* Including wells with power driven pumpsets.

More details are given in Appendices IV and V. In Punjab, where 85% of wheat is irrigated, if the costs of irrigated wheat are taken into consideration for price fixation, only producers of the remaining (15%) rainfed wheat will not be able to cover their cost. If the costs of rainfed wheat are considered, the producers of irrigated wheat will get a windfall since the unit cost of irrigated wheat is less. But, in Madhya Pradesh, where 85% of wheat is rainfed, taking into account the costs of irrigated wheat will leave out the bulk of the unirrigated wheat. If, on the other hand, the average of both irrigated and unirrigated wheat is taken, it would lead to different results in Punjab and Madhya Pradesh.

4.20 There are also other shortcomings of the cost data. Very few inputs used in the farming business are standardised and extreme variations in their quality are noticed. But these are treated as homogeneous in quality. In many cases, over-capitalisation in tractors and other farm machinery tends to push up cost. Allocation of joint costs between various products and by-products also bristles with difficulty. The farmer takes some land on rent and grows several crops in different seasons of the year. While division of the rent in proportion to the computed value of the crop is one of the accepted methods of allocation, difficulty of a practical nature might arise when one of the crops fails totally and the other with high unit value is bumper. Again, one comes across a high figure of cost of cultivation with meticulous details of the various components thereof, which are supposed to be average costs of a progressive farm. The highest doses of fertilisers, the optimum irrigation and tillage practices are adopted and the costs of cultivation are added up on per hectare basis. But when it comes to a question of yield per hectare, the average yield is used which has no relation to the level of inputs assumed in the calculation of the cost per hectare. The cost of production per quintal in such cases becomes very high. One has to be cautious about such estimates of cost.

4.21 Another suggestion that is sometimes made is that normative costs of production should be worked out assuming reasonable levels of application of inputs and output. The main drawback of this method is that it is very difficult to work out norms of inputs and cultivation practices for different areas; and even if these are computed on the basis of technical considerations, the field conditions would vary. The actual levels adopted by the farmer and the efficiency of management may differ considerably from the norms due to both controllable and uncontrollable factors. These difficulties render the method unsuitable for price fixation.

4.22 From its inception, the Agricultural Prices Commission has been handicapped for want of scientific data on cost of cultivation/production. In spite of various studies conducted so far, there is no unanimity about the cost data to be used. We have referred, in previous paragraphs, to the different methods of calculation of cost and their limitations and have drawn attention to the extreme variation in and serious limitations of cost estimates to underscore the point that cost data as available cannot become a firm basis for fixation of price. But, as we have mentioned in paragraph 4.2, the farmers should be assured a fair price, which should cover his cost and leave him a reasonable margin of profit. In the view of the Commission, one method of taking into account the year to year changes in the cost of production is to consider variations through a system of index numbers. For this, it would be necessary to get a general agreement regarding a year or a period of two or three years in which the prices and costs were, by and large, in balance, in which there had been an incentive to switch over from the traditional to the high yielding variety of crops and in which farmers put their farm surpluses into investments in agriculture by way of tubewells, tractors, etc. In relation to the cost in that base year or period (which may be different for different crops), every year the index numbers could be worked out, the updated data providing a better guide to taking a view on price adjustments. Since much of the difficulty arising from the absolute cost data may be obviated if index numbers are used, we recommend that effort should be made to develop and use an index number system for the principal crops. In order to adopt this system, it would be necessary to work out an appropriate scheme for the construction of index numbers of costs of production for different crops paying special attention to the problems relating to the determination of the base period, weighting diagrams, etc. It is also necessary to revise the weights periodically, particularly when there is reason to believe that due to the introduction of new technology, a change in the structure of costs has taken place.

4.23 Till the suggested system of index numbers can be developed, the best course for the Agricultural Prices Commission will be to make an informed judgement about fair minimum support price, keeping in view the limitations of the available cost data. The Agricultural Prices Commission should take into account the information on costs collected by it and the Directorate of Economics and Statistics in the Ministry of Agriculture and Irrigation through the cost of production studies as well as other cost data thrown up by various agencies. Further, in taking a view on the price, the Agricultural Prices Commission should also consult its advisory Panels, the formation strengthening of which we have suggested later in Section 7 of this Report. If this procedure is followed, we feel that it would serve the present needs of the situation and enable the fixation of a reasonable minimum support price, which would cover the cost plus a reasonable margin of profit. When indexation is developed, it would be possible to put the price fixation on a more rational basis.

4.24 It has been suggested to the Commission that in view of the spatial variation in the costs of production, it would be advisable to fix regional support prices instead of an all-India support price, which is now the present practice. A uniform support price is justified on the ground that it has the advantage of bringing about an efficient deployment of resources by encouraging greater investment and production in relatively low cost area due to a higher margin of profit and by discouraging production in the high cost area. But, as we have mentioned earlier, the cropping pattern or the choice of a crop is influenced more by the local agro-climatic conditions than by price. Moreover, even when the cost of production of a crop in a region is higher than that in another region, it may still be a more profitable crop in the regional context, though not so in the national context, and its cultivation will continue. For these reasons, the fixation of different support prices for different regions will be justified. The only constraint in this approach, however, is that large differences in price will encourage speculative activity unless the cordoning is complete and effective. Since the administrative burden imposed as a result will be too much and it will be difficult to enforce a total cordoning, a system of differential support prices, which tries to compensate for the entire difference in the costs, will not be practicable. Considering all these aspects, we feel that the present practice of fixing a uniform support price should continue. However, in specially high cost areas, a small differential price may be allowed, but the differences should be limited to the cost of transport from the nearest producing area where the uniform price is applicable.

4.25 In some years, minimum support prices in respect of some crops were either not announced at all or announced close to or even after the sowing season. If the support price has to carry any assurance to the farmer and encourage and enable him to make investment decisions, it should be announced well ahead of the sowing season.

# SECTION 5

## PROCUREMENT AND DISTRIBUTION SYSTEM

## (for cereals)

5.1 In considering various issues pertaining to procurement of cereals, it should be remembered that it is an integral part of the public distribution system. Public distribution of essential commodities of mass consumption, particularly foodgrains, as a public policy becomes incumbent when there is a chronic shortage along with severe monetary expansion leading to very high prices. If, under these conditions, the Government is to operate a system of public distribution, it has three options: (a) import the entire or part of the supplies needed for distribution, (b) buy foodgrains in the open market and subsidise - rather heavily - the issue price for public distribution, and (c) procure from the surplus farmers - if need be, both from foodgrain and non-foodgrain growers - a portion of the marketable surplus at below the market price. Since the feasibility of the first and second choice is severely limited by financial constraint, in the present circumstances, the third choice is relevant.

5.2 In this Section, we discuss in the main the following aspects of public procurement and distribution policy:

(a) procurement prices;

(b) area coverage of public distribution;

(c) quantum of procurement; and

(d) system of procurement.

5.3 There is a demand that in the shortage situation in the country, when the market prices are ruling high, the procuremen prices should be high enough and close to the market prices. This has arisen out of the controversy over the adequacy of the procurement prices announced by the Government, which were below the prevailing open market prices. It has also been argued that when there is a shortfall in production due to weather aberrations, the grower should be given a high price so that what he loses on the quantum is made good by price, thereby maintaining his cash income and there is inducement for greater production leading to more marketable surplus. The procurement price of a particular commodity should thus have some relationship with that year's production. This appro has also been justifed on the ground that the public authority has to get hold of a reasonable quantity of the marketable surpluses for its distribution system. While in a year of good production the problem will be less acute, in a bad year difficulties would arise if market prices are unduly high. Coercive and even punitive measures may help in a State like Punjab, where the farmers have a large surplus which must be brought to the market. Even then there is a possibility of holding back the stocks. In a deficit State, the difficult will be much more due to the small amounts of surplus available with the farmers scattered over a wide area. It has further been pointed out that one of the basic reasons accounting for the failure of the takeover of the wholesale trade in wheat was the offer by the Government of prices which were not realistic enough in relation to the high prices ruling in the market.

5.4 In Section 3, we have discussed some issues pertaining to procurement prices. Here we may reiterate that if heavy subsidies are to be avoided, the procurement has to be at below the prevailing high market prices. We have also mentioned that if only a portion of the marketable surpluses is so procured, the weighted average price of levy and non-levy sales may not be lower than the price which the producer may have received in the absence of levy. Further, if the producers want price support - above the likely market prices - in times of severe decline in prices, logically they should not oppose procurement at below the market prices, in times of severe rise in prices. Finally, the issue price has to be within the tolerance limit of the consumer with low incomes. Thus, in a shortage situation, the procurement prices, although higher than the minimum support prices, cannot, therefore, be much above the issue prices minus the cost of distribution plus, at best, a small element of subsidy.

5.5 It should be appreciated that there is close relationship between the procurement/levy price and the open market price. The very fact of imposition of levy pushes up the open market price as a result of the Government mopping up a portion of the stocks from the market. In the absence of such levy, the open market price would be lower. If the procurement price is increased, open market price will correspondingly go up and in this situation, a farmer would always look to the open market for disposing of his stocks. As a result, a higher price may not lead to higher procurement. Empirically also, despite higher procurement price, the quantum of procurement has not shown any significant increase. Moreover, the farmer's overall cash receipts depend on the weighted average price of his levy and free market sales. The return which the farmer gets should not be judged on the levy price alone but on the basis of a weighted average of both the levy and the open market prices. In paragraph 3.16, we have suggested a dual pricing and dual availability system which leaves the farmer with stocks to be sold in the open market. If sufficient quantities are left with him tobe disposed of in this manner, there is no reason why his income should be adversely affected since in a shortage situation, open market price may rule very high.

5.6 Procurement is intended for ensuring adequate public distribution to take care primarily of the vulnerable sections of the society. The need for public distribution arises because these sections are not in a position to pay the high market price that might prevail at any given moment. Public procurement, therefore, has to be at lower than market prices, as otherwise the Government will have to bear very heavy subsidies to make the foodgrains available at reasonable prices. A continuous burden of such proportions will be beyond the capacity of the Government to bear and would result in budgetary deficits. It can also be argued that as in times of bumper crop, support prices have been higher than market prices, so in times of scarcity, procurement prices may have to be lower than the market prices. No doubt procurement prices in normal times are to be higher than the minimum support prices. But as long as minimum support prices ensure that the costs of production have been adequately covered and procurement prices are above the minimum prices, the only residual consideration in determining the precise level of procurement prices ought to be the capacity to pay of the poor people whom the public distribution should principally cater for. Seen in this context, the fixation of procurement prices cannot be divorced from the purpose of procurement.

5.7 Considering that a substantial portion of the Indian population today subsists below the line of poverty, it should be a national obligation to take care of those who are at the subsistence level or below, particularly in difficult years. This should be the most important aspect of public policy. The only way of protecting the vulnerable sections from the impact of rising prices and inflation is to provide them foodgrains through public distribution, or, if this cannot be managed, to keep the foodgrains prices sufficiently low. All these years, the urban population, by and large, has been the main beneficiary of the public distribution system. But in view of the fact that in addition to the vulnerable sections of the population in the urban areas, there are rural areas which are more vulnerable, we feel that time has come to tilt the system more in favour of the rural people in these areas than hitherto.

5.8 Both the coverage and the quantum are important considerations in devising public distribution system. The system has to be maintained in such a manner that those whose purchasing capacity is limited or is adversely affected by natural calamities get the maximum benefit out of it. In order to stabilise prices, to contain the rising cost of living, to provide relief to the vulnerable sections of the population both in urban and rural areas and to alleviate the suffering of the masses from natural calamities like droughts and floods, the public distribution system should normally cover the following:

i) all cities and towns with population over one lakh excluding those in surplus areas in surplus States;

ii) all industrial towns covered under the scheme of All-India Consumer Price Index Numbers for Industrial Workers;

iii) drought prone areas; and

iv) flood affected areas.

A modified rationing system is working in urban and rural areas of Jammu & Kashmir and Kerala. This may also have to be continued for some time to come.

5.9 If the public distribution system takes care of the requirement of the population in the towns and cities, particularly the vulnerable sections, the self-employed and the labour class, who account for the major portion of the total urban population, the pressure on supplies in the open market will considerably ease, thereby making speculative hoarding for sales in the towns less attractive. More grain would, therefore, become available in the rural areas themselves.

5.10 Large areas in the country are affected by recurrent droughts. These are the most vulnerable rural areas. Relief works are undertaken in these areas on ad-hoc basis, grain distribution forming a part of the relief programme. Considering the worsening situation in these areas, it will be appropriate to extend the public distribution system to these areas on a regular basis. Not all need be covered, only the vulnerable sections comprising the landless rural workers and artisans and the small and marginal farmers can be brought under the distribution system. Since the bigger farmers will have the supplies from their own production, such selectivity in the distribution system will be justified.

5.11 Floods affect considerable areas in the country every year damaging crops and assets. The population in these areas are temporarily incapacitated and require assistance from the public distribution system. On the basis of the experience in recent years, we feel that provision for about 30 million people, who are affected by serious floods, will largely meet the requirement. However, the relief is necessary for short periods, say 3 months, since the floods, while adversely affecting the crops in one season (say, kharif), lay the foundation for a good crop in the subsequent season (say, rabi). The important point to be made, however, is that since different areas get flooded in different years, suitable measures will have to be taken to cover these areas at short notice through the public distribution system as and when the occasion demands.

5.12 If the areas and the population suggested by us are covered, we feel that the purpose of the public distribution system will have been largely served. In our judgment, the requirement of cereals for such a public distribution system may be about 12 million tonnes in a year depending on the quantum supplied per consumption unit on the basis of the estimated population in 1975. The basis of the estimates is indicated at Appendix VI. In these estimates, the supply for each consumption unit has been assumed at 12 oz (about 340 gms) per day for the urban population. In the rural areas too, the actual supply has to be at this level in respect of the rural workers in the drought prone areas who have no land base and who do not receive wages in kind. Insofar as the small cultivators are concerned, they will have some grain production from their land. Their demand will be relatively less. Considering this, an average of 8 oz (about 227 gms) per day per consumption unit has been assumed for purposes of the estimates for these areas. No doubt the consumption will be supplemented by tuber crops like tapioca. In flood affected areas, a supply of 12 oz per day per consumption unit has been assumed for three months. Short of widespread failure of crops, the estimates appear to be reasonable. These quantities form between 11 and 12 per cent of the targeted production of cereals in 1974-75. We, therefore, feel that the guiding principle should be to aim at a procurement of 12 per cent of cereal production on an average by the public authority for the next few years. In years of good rainfall and better production, it should be feasible to procure more. Also, in these good years, the demand on the public distribution system will relatively be less, leaving thereby some balance for building up buffer-stock for lean years.

5.13 To start with, the composition of the foodgrains to be procured could be 5 million tonnes each of rice and wheat and 2 million tonnes of coarse grains. It is seen that even with lower production, it had been possible to collect 4.5 million tonnes of wheat in 1973-74. In that year, the procurement of rice was nearly 4 million tonnes. In the view of the Commission, the targets suggested should be manageable both from the point of view of present availability and the existing administrative capability. As a result of the various development measures, it is reasonable to expect that production would continue to increase, yielding larger quantities of procured grain.

5.14 Agricultural labourers form a sizable section of the rural community. There is a tendency now to do away with the age-old practice of paying wages for various operations in kind to these labourers in the rural areas. They are generally the poorest section of the rural population and their wages do not go up in proportion to the increase in the cost of living. As such, their level of living is badly affected in a situation of rising prices and inflation if their wages are paid in cash without adjustment for the rise in the cost of living. The Commission strongly feels that the practice of paying wages in kind for various agricultural operations should be maintained. This would make more grain available to this section of the population and thereby lessen their hardship. It would also reduce the pressure on the public distribution system. Otherwise, if a very large section of the rural population is to be covered, it would be a tremendous job to ensure proper distribution of foodgrains and may be beyond the capacity of the present administration.

5.15 The urban areas are also areas with high purchasing power Consequently, farmers from whom the grain is procured at below the market price for distribution in the urban areas, feel aggrieved because they see a high price in the open market prevailing side by side with the relatively low ration prices. If, on the other hand, provision is made to feed the vulnerable sections in the rural areas in a large measure, the farmers will not complain that the food is being taken out of the countryside to feed mainly the high price urban areas. Such a policy would strengthen the moral case of the Government in offering lower than the market price to the farmers, which must be related to the price at which foodgrains ought to be distributed to the rural poor.

5.16 There are different methods of procurement. These include purchases from the open market, pre-emptive purchases in the market, monopoly purchase, levy on traders and compulsory levy on producers, millers and hullers. Direct purchases from the open market for the public distribution system can be ruled out because of the high prices that will prevail in a shortage situation. The Punjab system of pre-emptive purchase, under which the Government pays the prices determined in the market, but has the pre-emptive right of first delivery, is considered more appropriate to the purchase of wheat than to the purchase of rice because of differences in the system of marketing. It, however, suffers from the limitation that the procurement price at which the Government can buy is fixed and purchases may be difficult when prices are very high in a period when there is a shortfall in the overall production. Moreover, the system, not being based on progressively higher proportion of levy on bigger farmers, does not distinguish between big farmers and small farmers and is, therefore, to some extent, inequitable.

5.17 Neither the system of procurement through monopoly purchases (or nationalisation of wholesale trade) nor through trade has succeeded. Nationalisation of the wholesale trade, in the sense that it brings the farmers into direct contact with the Government, has the advantages of eliminating middlemen and ensuring better price to the farmers and a reasonable price to the consumers. Through this process, a greater measure of stability in prices could also be introduced. However, the takeover of wholesale trade implies that there will not be any open market. By definition, this will mean procurement of the entire marketable surplus, as distinct from marketed surplus, by the Government agencies. Obviously, the present administrative machinery is not adequate to procure and handle quantities of such magnitude. The takeover of wholesale trade should be considered only when the administrative machinery is capable of procuring and handling the large quantities involved. The nationalisation, as adopted for wheat in 1973-74 rabi marketing season, did not cover retail trade, which continued to be in private hands, and there was no effective way of preventing hoarding by the retailers. There were other weaknesses also. The producers were permitted to sell directly to the consumers in small lots. Further, the takeover was confined to wheat leaving out other cereals. On the other hand, the extension of wholesale trade takeover to all the cereals would have carried with it the responsibility for feeding the entire population by the Government. Difficulties are being experienced even with the present system of rationing, such as poor quality of grains distributed and existence of ghost ration cards. Moreover, a crucial problem encountered in this system is that whatever price the Government pays for its monopoly purchases, the farmers will inevitably feel that injustice is being done to them and will seriously try to dodge procurement. When Government becomes the sole buyer, farmers tend to regard any administered price as low, since they have nothihg to compare it with. Since by definition, there is no other outlet for sales at higher than the procurement prices, Government as a monopoly purchaser will have to put the prices higher. This will defeat the very purpose of procurement for the public distribution system unless the Government is prepared to bear large subsidies to bring down the price at which foodgrains will be issued to the public. Thus, although the objectives of the nationalisation of the wholesale trade are unexceptionable, we do not consider that this is practicable in the present situation, keeping in view the administrative and other difficulties pointed out above.

5.18 The experience in the 1974-75 rabi marketing season, with regard to the reliance placed on the traders for the delivery of grain to the Government for public distribution, indicates that the system of levy on traders cannot also be relied upon as a major instrument for the procurement of cereals. In that season, the Government modified its procurement policy, raised the procurement price and, at the same time, imposed a levy of 50 per cent on mandi purchases by the wholesale traders. It is known that the traders, in order to avoid the levy effected deals outside the mandis (regulated markets). There were no means by which the farmers could be compelled to bring the produce to the market and the levy could be collected from the traders.

5.19 In view of the known difficulties involved in other forms of procurement, we are inclined to recommend that the major operational instrument for the procurement of cereals should be the well-tried system of compulsory graded levy on producers and millers as well as on hullers. The entire requirement of grain for the public distribution system can be collected through this instrument, if it is adequately supported with legal sanctions and administrative arrangements. Given the political backing and determination, there is every reason to hope that this system would succeed. The rates of levy will have to be different in different States depending upon the quantum of cereals to be procured as determined on the basis of the National Food Budget. Moreover, the levy should be a graded one so as to be equitable between different size classes of farmers with such exemptions/ relief for the smallest farmers, as may be deemed necessary.

Due allowance should also be made for differences in output levels per unit area between irrigated and unirrigated areas. The Commission wishes to lay down the basic principles only; the Central and State Governments should work out the details of the system, keeping in view the responsibilities of each State under the National Food Budget.

5.20 We have suggested a levy on millers as there are limits beyond which it would be difficult to impose levy on the producers. Levy on producers has been tried in the past in several States with varying degrees of success. Where the rates of levy are reasonable taking into account the differences in size classes and between irrigated and unirrigated areas and the system has the necessary administrative and political backing, it has worked fairly well. A combination of levy on producers as well as on millers may enable the collection of the required quantum of cereals in a State. In some areas, the accent may be on the levy on millers, as in Haryana, where a large proportion of the paddy produced is marketed.

5.21 The levy on millers should always be accompanied by a levy on hullers. Past experience shows that where it had not been so, there had been large scale diversion of grain from the milling industry to hullers to avoid levy. A suitable combination of the levy on producers, millers and hullers will have to be worked out to acquire the required quantum of cereals for the public distribution system.

5.22 Earlier, we have indicated that the levy on traders as a major instrument for procuring grains cannot be depended upon.

Even in respect of coarse cereals, the system should be the compulsory graded levy in areas where these are the main crop. However, in areas where the production of the coarse cereals is dispersed, a levy on traders may be administrativel more convenient. We must also add that in such areas where this system may be adopted, it would be necessary to support it with cordoning, without which the system cannot succeed.

5.23 We are aware that the pre-emptive purchases of wheat in heavily surplus areas of Punjab and Haryana have been in vogue for a long time and the system has given fairly good results particularly in years of good production. Since the system has been working for such a long time, the concerned State Governments may not wish to disturb it. We feel that if the State Governments concerned wish to continue this system, this may be allowed provided they are able to procure through these arrangements the quantities as stipulated under the National Food Budget. We may, however, point out that this system of pre-emptive purchases requires the continuance of restrictions on the movement of grains outside the State and cordoning of the surplus areas all the year round. Thus, the farmer would get only the procurement price or a price very near to it throughout the year. On the other hand, under the levy system, once the farmer delivers the grain as per the levy, he is free to dispose of the rest of the produce in the open market. The continuance of movement restrictions and cordoning may not be necessary after the requisite quantities are procured, as we have indicated in paragraph 5.32.

5.24 We would like to reiterate that what is important for maintaining the public distribution system is to ensure a total procurement of 12 per cent of the production of cereals. In most States, and for the most of the cereals, compulsory graded levy on the farmers would be preferable, the rates varying from State to State depending on the quantum to be procured under the National Food Budget. If the States, for any reason, adopt other forms of procurement taking into account the special circumstances therein, they may be allowed to do so subject to the condition that they have to fulfil the procurement targets determined under the National Food Budget.

5.25 In Maharashtra, the producers of commercial crops are also required to pay levy to the Government in terms of grain. This they do by selling their produce and buying the required quantity of grain. The system has much to commend itself. If the compulsory graded levy is put on the producers of foodgrains and commercial crops, there will be no discrimination against the farmers producing foodgrains, a charge that is generally made now. The adoption of this approach will, at the same time, remove the apprehension of large scale transfer of area from food crops to commercial crops. The result of the Maharashtra experiment deserves to be watched.

5.26 It is suggested from time to time that land revenue should be collected in kind. We have not examined the pros and cons of this suggestion. However, to the extent it is feasible to collect land revenue in kind, there would be a case for correspondingly reducing the compulsory levy commitment of the farmers.

5.27 Earlier, we have suggested that approximately 12 per cent of cereals should be procured annually on an average for the public distribution system. It seems that even after 12 per cent of foodgrains is procured, sufficient quantities will be left with the farmers to be disposed of in the open market where they can get much higher price. The proportion of production which comes to the market as marketed surplus is around 25 per cent in the case of rice, about 35 to 40 per cent in the case of wheat and about 12 per cent in the case of jowar. On this basis, it will be reasonable to expect that marketed surplus in the case of both rice and wheat will be at least around 10 to 11 million tonnes each on the basis of the existing levels of production. In the case of coarse grains, 5 to 6 million tonnes of marketed surplus will be a reasonable estimate. It will, therefore, be seen that enough quantity will still be left with the farmers for disposal in the open market. What they will forego on the levy price, which is likely to be below the open market price, they can make up in the open market where price goes up as a result of procurement and thereby their weighted average price will not be less.

5.28 In Section 3, we have recommended that in a National Food Budget be prepared every year taking an objective view of the production possibilities in the States and requirements for the purpose of deciding each State's procurement targets and/or the quota from the Central Pool. In working out the availability not only the surpluses in surplus States should be estimated but also the surpluses of surplus farmers and surplus areas in deficit States would have to be reckoned. For this, reasonably accurate data regarding production potential, likely surpluses and consumption requirement would be required in respect of both surplus and deficit States, so that both the requirement of deficit States and the supplies from surplus States could be worked out impartially. Otherwise, there would be various types of pressures and the Centre would be blamed for not feeding the deficit States.

5.29 In the above context, the Commission would like to comment on the availability of data, needed for formulating the food policy, both with the Central and State Governments. In connection with its examination of the requirement of the public distribution system, the Commission was in need of data regarding the quantum presently distributed in urban and rural areas separately. To the Commission's surprise, the information is not only not available at the Centre but also, except for a few States, not available readily with the State Governments. In reply to our enquiry, only five States and two Union Territories could furnish the required information; five other States and one Union Territory could provide only the total quantum distributed. The information received by us can be seen at Appendix VII. It appears from the data furnished to us that in Maharashtra the grain distributed was more in rural areas in three out of five years; but this seems to be due to special arrangements for drought relief. In Orissa, the distribution has been consistently more in the rural areas. In Rajasthan, the balance is in favour of the urban areas. The same is true of West Bengal, because of the large urban population covered by the statutory rationing system. In Karnataka, the rural areas have received more cereals in three out of five years. Considering the importance of the relevant statistics, we recommend that the authority responsible for the public distribution system should collect, as precisely as possible, data about distribution of cereals in rural and urban areas separately in order to decide the quantum required for future distribution.

5.30 We have recommended that the entire quantity of cereals needed for the public distribution system should, preferably, be procured through levy. In case the Government wishes to purchase additional quantities from the market, this should be done without announcement of either the proposed quantum of purchases or price. Otherwise, the producers and traders with their propensities for hoarding and speculation will try to dodge the levy seriously in the expectation of selling the same grain to the Government in the open market at a higher price.

5.31 When it is decided to buy additional quantities of cereals in the open market, the Government agencies must be in a position to buy the grain at the most favourable price ruling in the market. In order to develop a great deal of efficiency in purchases, we suggest that the Food Corporation of India, which is a nation-wide organisation, should link itself up with all the markets of each region through appropriate communication and market intelligence system and should be informed each day of the prevailing market prices and arrivals. It should then operate in the cheapest market each day and should undertake switch operations from the dearer markets to the cheaper markets. This system is followed the world over by the large and efficient buyers. The Food Corporation of India should also cast itself in the role of a large and efficient business concern, fully informed of the market conditions and making full use of the economy of large scale operations.

5.32 After the realisation of the levy by a State, the State Government should be given the option to remove restrictions on the movement of foodgrains. However, the question whether the obligations of levy by a State have been fulfilled or not should be decided not by the concerned State, but by the Central Government.

5.33 The Commission is fully aware that the costs presently incurred in procurement and distribution of cereals are very high. We would, therefore, recommend that the marketing margins should be reviewed and reduced, wherever possible, so that grain can be sold at reasonable prices to the consumers, while, at the same time, farmers are given an economic price for their produce.

5.34 Buffer stock of foodgrains is an integral part of the public distribution system. In preparing the National Food Budget, a view must necessarily be taken on the level of buffer stocks to be maintained and the manner in which the stocks would be built up. We have already pointed out that in good years, the pressure on the public distribution system being less, there is likely to be some balance from internal procurement which could be transferred to buffer stocks. However, in the case of a commodity for which shortage is chronic, it may be necessary to build up stocks from imports in spite of the known constraints of foreign exchange. We would also like to emphasise that the buffer stocks of foodgrains should be released, in times of need, mainly through the public distribution system. It should not be frittered away by releasing it to the open market as it would require a large quantity of stock to influence and stabilise the open market prices. Since this is not possible and the speculative elements are likely to corner whatever releases are made in a difficult year, a regulated release through the public distribution system appears the most desirable course. This would also have a sobering influence on the open market prices.

5.35 In addition to the above considerations, we would like to emphasise that the location of these stocks should be reviewed in the light of the suggested coverage by the public distribution system. If the locations are properly planned, a lot of cross movements and the costs involved therein can be avoided and timely supplies will be possible. Moreover, the rotation of stocks should be reasonably quick to reduce deterioration and losses arising out of long storage.

5.36 The Commission considers that the present practice of announcing the procurement price before the harvest is the correct procedure. A question has, however, been raised as to whether there should be a mid-season change in prices. The point arises from the concern that procurement may fall short of requirement and a higher price may be necessary to get hold of adequate quantities to compensate for the cumulative storage cost. In our view, this approach is fraught with danger. Once the farming community, particularly those with capacity to withhold supplies, come to know that there is a possibility of upward revision in prices, they will have vested interest in postponing levy commitments and compel the

Government to raise the price. We have already recommended that the entire quantity required for the public distribution system should, preferably, be collected through compulsory graded levy. If this is done, then the question of mid-season change in price will not arise.

5.37 It has been suggested that unlike an all-India minimum support price, the procurement price could be different in different States depending upon the production performance. But a single price has the advantage of avoiding a lot of local pressure. However, we do not think that a very rigid attitude should be taken on this point. Although we have suggested compulsory graded levy at a fixed procurement price, there may be some psychological advantage in the collection of the levy in a shortage situation if a little extra price is paid in a particular State where production might have suffered relatively more. To the extent that the extra element is kept within limits and its impact on the pooled price of grain issued from the public distribution system is marginal, it would be permissible to allow for such extra payments in specific situations.

5.38 Lastly, the Commission would like to draw attention to the sale of foodgrains by the small and marginal farmers. It is noticed that in many places these farmers, due to their wants, are forced to sell their produce in the local markets at distress prices, which are below the price that the Government offers for its procurement/purchases. It is also reported that bigger farmers get hold of the grain from the smaller farmers through such means and pay the same grain to the Government in the form of levy, thereby saving their own grain for sale in the open market at much higher prices. Considering that both these practices do immense injustice to the small farmers, serious consideration should be given to the question of reorganising the public purchasing activities in such a manner that the procurement agency is in the market well ahead of time to gather the grain from the small farmers if they wish to sell it. If the procurement price is offered to them, they will willingly give the grain to the public procurement agency. Thereby, the Government will be collecting enough grain from this section of farmers although it might have exempted it from the purview of compulsory levy.

## SECTION 6

## COMMERCIAL CROPS

6.1 Commercial crops have certain special problems which require attention. The main characteristic feature of commercial crops, like cotton, jute, oilseeds and tobacco, is wide fluctuation in prices. Most of the commercial crops are rainfed and are subject to severe fluctuations in production resulting in wide variation in prices, which is often accentuated by speculation. Many of these commercial crops have export potential and also have forward linkages with processing and manufacturing industries, the products of which are exported.

6.2 While some of the commercial crops, like oilseeds, are cultivated widely in the country, there are others, like pepper, whose production is localised. The demand and supply in respect of some of these commodities, like jute and tobacco, are more or less in balance; but in others, like cotton and oilseeds, the imbalances are pronounced. However, seasonal fluctuations in the output of all these commodities have considerable impact on the level of their prices. It is, therefore, important to evolve for them a suitable price policy.

6.3 Considering that in years of good production, the prices of these commodities often tend to go down below remunerative levels, minimum support prices are necessary to safeguard the interest of the growers. The considerations in fixing the minimum support prices of commercial crops are the same as in the case of food crops, to which we have referred earlier in Section 4. Apart from the major commodities covered by it, the price trend of other important commercial crops, whose production and price problems are more localised, should be watched by the Agricultural Prices Commission. The commodities which we have in mind are pepper, chillies, onions, arecanut, coconut, etc. The Commission should, in appropriate cases, make its recommendations for support prices and also measures necessary for making them effective.

6.4 In many cases, the low prices which the growers get often result from the defects in the marketing system. For example, there are special problems relating to kapas grading and jute prices in up-country markets. We have dealt with these and other marketing problems of a few major commercial crops in our Interim Report on Certain Important Aspects of Marketing and Prices of Cotton, Jute, Groundnut and Tobacco. In that Report, we have recommended that the Cotton Corporation of India and the Jute Corporation of India should be enabled to acquire command over 25 to 30 per cent of output. In a situation of falling prices, they should, no doubt, enter the market and maintain the prices, at least at the level of support prices, by their purchases either through their agents or through the cooperative societies. The timing of the purchases is important particularly in the interest of small growers who bring their produce early to the market or dispose of their products locally. It has been reported to us that inadequate arrangements for purchase of jute early in the season have often led to sales by growers at depressed prices. Adequate strengthening of the arrangements for making purchases from not only the established markets but also the interior markets and areas, as the marketing season begins, should thus receive the required attention of the Corporations.

6.5 When the prices tend to be low following a bumper crop, it may be necessary for the purchase agency to buy the surplus production in excess of the immediate demand to lend support to the market and put away the excess quantity as buffer-stock, which could be used for stabilising prices in lean years and for export.

6.6 In the shortage situation, prices tend to be high. However, even when prices are generally high, there may be pockets/areas where prices may be relatively low in relation to established markets. This phenomenon is seen in areas generally away from established markets. It should, therefore, be the responsibility of the Corporations and other purchase agencies to streamline their arrangements and make purchases in such specific areas.

6.7 When prices are high in the shortage situation, if the purchasing agency enters the established markets and holds on to the purchased stock, it would only help in pushing up prices and add to the inflationery trend. For example, in the case of cotton, the prices had risen considerably in the last two years. As such there was no question of supporting the prices in the established markets. Yet the Cotton Corporation of India offered to buy cotton at higher than the prevailing market prices with a view to acquiring command over a sizeable quantity of output to control the trade. But by operating in established markets, where prices are already high, such action would accentuate the price situation to the detriment of the domestic price of cloth and textile export.

6.8 While it is necessary for the Corporation to get a command over a reasonable portion of the output (say, 25 to 30 per cent) with a view to stabilising prices) the purpose of such control should be clear. It should be appreciated that this implies both buying and selling; buying, when prices fall and selling, when prices tend to be high. But if the Corporation holds on to the stocks in a shortage situation, when prices are already high, it will add to the distribution cost and also push up the prices further. The Corporation, to be effective in such a situation, must have sufficient turnover of its stocks with minimum required period of holding.

6.9 The purchase prices at which the Corporation and other agencies are to buy the commodities, when the prices are ruling high, should be determined after considering their impact on the domestic industry, the economy and export. The price of a commodity should have some relationship with the price of the processed/manufactured products.

For example, very high level of cotton price would hurt textile exports. Similarly, jute prices have to be considered from the point of view of their impact on the jute industry and the international price situation for jute goods. The prices at which jute should be purchased should not be such as would make exports of jute goods unremunerative in export markets. Likewise, the prices of oilseeds have to be considered in relation to their effect on the prices of oil and the prices of tobacco in relation to the prices in the international markets. The Agricultural Prices Commission should, therefore, give general guidance to the purchase organisations regarding purchase price and the level at which intervention would be necessary.

6.10 Apart from the purchase and sales operations, other monetary and fiscal measures are obviously required to stabilise the prices of commercial crops. These measures include regulation of bank advances and forward trading, adjustment in export and import policies etc.

6.11 Promotional purchases are necessary in the case of commodities which are being propagated to bring about better balance between production and demand. For example, adequate marketing support is required in the case of soyabean and sunflower whose production is being encouraged to reduce the scarcity of oilseeds. In the absence of such promotional purchases, it would be difficult to establish the cultivation of these new crops widely.

6.12 In the previous paragraphs, we have emphasised the need for making support purchases to prevent a sharp fall in prices. If a separate agency is created for each commodity, the overhead costs will be very high. One way of reducing the overhead costs is to have a single Agricultural Commodity Corporation of India for commercial crops which can attend to different crops in different seasons. Barring cotton and jute, for which separate Corporations have already been established, and tobacco for which a Board is envisaged, the Agricultural Commodity Corporation of India could take care of the rest of the commodities. Although the Corporation would require varied expertise to attend to different crops, we feel that there will be overall economy. The question of amalgamation of the Cotton Corporation of India and the Jute Corporation of India with the Agricultural Commodity Corporation of India could be considered at a suitable time in the future.

## SECTION 7

## ARRANGEMENTS FOR ADVISING THE GOVERNMENT

7.1 The Agricultural Prices Commission was set up in January, 1965, following the recommendations of the Jha Committee on Foodgrains Prices, to advise the Government on a continuing basis on agricultural price policy and price structure. The Government of India resolutions on the Agricultural Prices Commission and its terms of reference are given in Appendix VIII. Apart from the Chairman, one Member and a Member-Secretary were appointed on the Commission.

7.2 Since its constitution, the Commission has been recommending to the Government the price policy and non-price measures in respect of foodgrains and other major agricultural commodities. The practice generally has been to advise the Government on minimum support price and purchase or procurement price of the commodities before sowing and harvesting seasons respectively. The advice so tendered by the Commission is recommendatory and is reviewed by the Government - in regard to foodgrains prices, in consultation with the Chief Ministers of the States - before final decisions are taken and the prices announced.

7.3 Before the Agricultural Prices Commission makes its recommendations in respect of different commodities, it elicits the views of the concerned State Governments on various issues including the condition of the crops in question and their prospects. For its requirement of cost, price and other relevant data, it depends principally on the Directorate of Economics and Statistics in the Ministry of Agriculture and Irrigation, which organises various field studies and collection of data through different agencies. In addition, the Commission keeps in touch with other agencies dealing with matters having a bearing on prices and production.

7.4 There is also a system of consultation with the representative and knowledgeable farmers. A Panel of Farmers is attached to the Commission with a view to assisting it in taking a balanced view on production, marketing and price policy for agricultural commodities and allied matters. The Panel consists of one progressive farmer from each of the States considered important from the point of view of fixation of prices of agricultural commodities and four Members of Parliament and is constituted by the Government usually for a period of two years. The present Panel was set up in August, 1973 and has 24 members. The Panel generally meets twice a year.

7.5 The terms of reference given to the Agricultural Prices Commission are comprehensive and in line with the recommendations made by the Jha Committee. These do not require any change. Insofar as the marketing aspects included in the terms of reference are concerned, the Commission should be concerned with only those aspects of marketing arrangements which have an impact on prices and may indicate its views for administrative action.

7.6 Several views have been expressed before us on the question of strengthening the Agricultural Prices Commission. Some have felt that while the present composition is adequate and it should continue as a body of specialists, adequate opportunity should be provided to all the concerned interests to tender their evidence before the Commission to enable a realistic approach in the matter of estimating the cost of production and fixation of prices. There is also a view that special interests may be given representation in an advisory capacity. The farmers' and consumers' organisations, on the other hand, have stressed that the present composition of the Commission is inadequate and that there should be direct membership of the producers' and consumers' representatives on the Commission. Some have suggested that specialists drawn from the different fields of agriculture should be appointed as members.

7.7 In paragraph 7.1, we have mentioned that the Government appointed three Members on the Commission including a Chairman and a Member-Secretary. The Jha Committee, however, recommended four Members in addition to the Chairman. We also notice that for a substantial part of its existence, the Commission has functioned without the full complement. For some time, there has been only the Chairman; a Member-Secretary has been appointed, and that too on a part-time basis, only recently after the post was vacant for about three years. In our view, a complement of four members is necessary for the type of work and responsibility assigned to the Commission. In the interest of its work, the Agricultural Prices Commission should not function in a truncated manner.

7.8 Considering the nature of the work of the Agricultural Prices Commission, it has been in the fitness of things that eminent economists have headed it so far. This practice should continue. The Member - Secretary should also be an agricultural economist or statistician experienced in agricultural policy so that he is in a position to organise the required secretariat support to the Commission. Since the formulation of the price policy is closely linked with agro-climatic conditions in different regions, the third Member of the Commission should be an agricultural scientist experienced in problems of production. The induction of an agricultural scientist will bring in the required expertise in the Commission and help it to take into account the field conditions. The fourth Member should be a non-official with understanding of agricultural production and consumer problems. We feel that the Commission, thus constituted, would be in a position to take a more balanced view of economic, technical and other aspects of the price problems. We are convinced that the Commission should continue as an independent advisory body for technical assessment and opinion and that no formal representation of the farmers or consumer interests as such would be desirable.

7.9 However, in view of the large number of crops and wide variation in the field conditions, one scientist may not be an expert on all crops and every field situation. It will be appropriate, therefore, if there are arrangements for consultation. The Commission can profit to a great extent if regular facilities are created for consulting agricultural scientists, agricultural administrators as well as economists in the country. This will give a better range of consultation. We, therefore, recommend that in addition to the Panel of Farmers, there should be another Panel attached to the Agricultural Prices Commission. We may call this its Technical Panel consisting of agricultural scientists, agricultural administrators and economists and statisticians. The Panel should consist of a core of 15 members and should be set up by the Government for a term of three years. The Chairman of the Commission should be free to add one or two specialists having intimate knowledge of the issue under discussion or for special crops like cotton, oilseeds, etc.

7.10 A similar procedure should be followed in the case of the Panel of Farmers. The Agricultural Prices Commission should have the discretion to invite or co-opt one or two farmers knowledgeable in special crops, when such crops are under review. Considering the wide variation in the field conditions and the limitation of data which cannot be removed soon, the facilities for consultation with the broad-based Panels should be of considerable value to the Commission in making informed judgement on matters connected with the formulation of price policies.

7.11 Both the Panels should meet regularly and, as far as possible, with a fixed schedule. In addition to these scheduled meetings, the Commission may hold special meetings of the Panels, as and when necessary, in addition to its discussions with the concerned interests as it is holding now. The Panels should be adequately supplied with the relevant information and data on the subjects on the agenda of the meetings.

7.12 Since our recommendations regarding the functioning of the Commission will considerably increase its workload, we recommend that the technical staff in the secretariat of the Commission should be adequately strengthened to provide the required staff support.

7.13 It has been suggested by some that the Commission should have zonal advisory bodies where representation should be given to farmers, consumers, traders, agro-industrialists and agricultural scientists. Others have stressed that it is not necessary to have such advisory bodies as they would bring in political pressure; but the Commission should have regional offices to take care of regional variations. In our view, the acceptance of either of the suggestions would make the organisation unwieldy and will not be in the interest of its efficient functioning.

7.14 The Agricultural Prices Commission is handicapped for want of adequate data. We have already mentioned that the Commission depends for its data support to a considerable extent on the Directorate of Economics and Statistics and the cost of production studies organised by it. In our view, these and other related studies s should be designed and undertaken in consultation with the Agricultural Prices Commission so that they could be geared to the needs of the Commission. Its Technical Panel, as envisaged by us, should take a view on the data requirement and its advice should be taken into account in planning data collection by the Directorate of Economics and Statistics.

7.15 In the reference received from the Ministry, the question of giving statutory support to the arrangements for advising the Government has been raised. The Jha Committee had also recommended that after the Agricultural Prices Commission had functioned for some time, this question should be reviewed. The statutory backing could be considered from two angles, viz., statutory powers to the Commission to call for data and evidence and statutory backing to its recommendations so that these are implemented without any modification.

7.16 It is considered by some that since the Commission is handicapped for want of timely and adequate data and information, it would be appropriate to bestow it with statutory powers, on the lines of the Tariff Commission, to enable it to call for information and evidence as and when necessary. We consider that there is a basic difference between the functioning of the Agricultural Prices Commission and the Tariff Commission in their working. The Tariff Commission has to rely on information from the industrial establishments. Because it is feared that the cooperation from the industrial units may not be forthcoming, statutory backing becomes necessary. The Tariff Commission may also be required to verify the information supplied by the industrial establishments. Thus, to ensure effective working of the Tariff Commission, it has been armed with sufficient statutory powers to facilitate investigations. In the case of the Agricultural Prices Commission, if such powers are given, these would, in fact, be notional because, by and large, it does not collect primary data. The Commission is expected to work in close liaison with the Directorate of Economics and Statistics which gives it the data support. Further, it collects data from State Governments and semi-Government institutions. It is, therefore, not essential for the Commission to institute an independent inquiry to get relevant data because it would amount to duplication of effort. For these reasons, we do not think that statutory powers are necessary for the Agricultural Prices Commission.

7.17 We are also not in favour of any statutory backing to the recommendations made by the Agricultural Prices Commission. The question for such backing arises out of the concern that the Government decisions on prices modifying the recommendations of the Commission are taken more on the basis of extraneous considerations rather than on what the economic situation demands. In our opinion, the Government cannot abdicate its right to take final decision on such vital matters because it is the Government which is directly answerable to Parliament and the public for such decisions. Moreover, the Agricultural Prices Commission, being a technical body, cannot take into consideration factors which are non-economic. It is through the procedure of consultation with the State Chief Ministers that the Government takes into account the various forces and factors in the situation. We feel that there should be flexibility of action in this matter and each situation should be judged on merit as to whether the prices announced for any crop require statutory backing.

7.18 While statutory support is not considered essential, we agree that it is necessary for the Centre and the States to respect the recommendations of the Commission as a convention, unless there are strong reasons to deviate from the same. We understand that there are instances when the Government took important decisions on agricultural price policy without prior consultation with the Agricultural Prices Commission. In our view, this is not desirable. We strongly feel that on all matters concerning the agricultural price policy and in all seasons, the Government should necessarily consult the Agricultural Prices Commission before taking a decision on the price policy and also keep the Commission informed of the decisions taken.

# SECTION 8
## ACKNOWLEDGEMENTS

8.1 The Commission takes this opportunity to thank the Panel of Agricultural Economists, particularly its Chairman, Prof. M.L.Dantwala, for the valuable help rendered in considering various issues pertaining to agricultural price policy and for its views. We have considerably benefited from the advice we have received from the Panel. We also wish to thank the Governments of the States and the Union Territories, farmers' and other organisations, economists and individuals, who have responded to our request and favoured us with their views in reply to the Questionnaire issued by the Commission.

8.2 We also wish to place on record our appreciation of the commendable work done by Shri S.K.Mitra, Joint Director, in analysing the problem and assisting in the preparation of the Report. Shri B.N.Kacker, Deputy Director, has rendered valuable assistance in the analysis and preparation of the relevant material. Shri J.Satyanarayana, Assistant Director, has provided useful analytical support. Our thanks are also due to Sarvashri B.S.Kapila and V.Bhaskaran, Assistant Directors, for their untiring assistance. Sarvashri G.M.Kanth,

Research Investigator and P.K.Basu, Technical Assistant, also rendered valuable help.

sd/-
Nathu Ram Mirdha
Chairman

sd/-
B.Sivaraman
Vice-Chairman

| Member | Member | Member |
|---|---|---|
| ~~sd~~/- Z.A.Ahmad | sd/- Chaudhri Randhir Singh | sd/- T.A.Pai |
| sd/- H.R.Arakeri | sd/- Hari Singh | sd/- N.K.Panikkar |
| sd/- Balwant Singh Nag | sd/- A.M.Khusro | sd/- D.P.Singh |
| sd/- P.Bhattacharya | sd/- M.V.Krishnappa | sd/- M.S.Swaminathan |
| */ Ahmad | sd/- S.K.Mukherjee | sd/- Triloki Singh |



sd/-
J.S.Sarma
Member Secretary

New Delhi,
February 26, 1975

## QUESTIONNAIRE ON AGRICULTURAL PRICE POLICY

1. What should be the role of price policy in a sector like agriculture, which is subject to violent fluctuations in market behaviour, both internal and international, and may result in the direction of its development deviating considerably from the planned pattern unless effectively regulated? Do you think that a large measure of desired direction could be given to this section and the economy through prices?

2. What is the role of integrated price structure which tries to bring about a reasonable relationship between agricultural and industrial prices? Should all agricultural commodities be taken into account or only the prices of major commodities need be considered? If the latter course is chosen, to what extent will it influence the prices of other agricultural commodities? What are the long-term and short-term implications of integrated price structure on the economy?

3. The prices of agricultural commodities have wide ranging effects on the rest of the economy. It is considered desirable and necessary to stabilise the prices of agricultural commodities within a reasonable range in order to prevent sharp fluctuations in the general price level so that a stable climate conducive to investment and enterprise can be maintained keeping this in view, the agricultural price policy may be designed to -

   a) maintain a reasonable relationship between the prices of agricultural commodities and of manufactured articles, so that the terms of trade do not change sharply;

   b) maintain appropriate relationship between prices of competing crops;

   c) reduce seasonal fluctuations to the minimum;

   d) stabilise prices of manufactured articles.

   Do you agree? Should these be included as some of the main objectives of agricultural price policy?

4. Do you agree with the view that the aim of the price policy should be to ensure fair price to both the producers and consumers? Do these objectives conflict?

5. What are the circumstances in which the following methods of price adjustments can work to achieve the objectives of the price policy:

   a) fully controlled market;

   b) partially controlled market; and

   c) free market?

   Under what circumstances the methods will be detrimental to the objectives?

6. What should be the instrument of policy to ensure optimum utilisation of land resources? To what extent are the changes in relative prices effective in bringing about this balance? Is price manipulation sufficient? What are the supporting measures which should be taken? Is statutory allocation of acreage feasible or desirable under Indian conditions?

7. How far does a higher price act as an incentive to increase production? In cotton, groundnut, pulses etc. it has been seen that higher prices have not helped to increase production. What is your view?

8. What are the devices alternative to prices which can be used to realise the objectives of agricultural price policy?

9. What is the role of incentives including subsidy of inputs? Do you think that such incentives will result in increased acreage and productivity? What is their effect on the overall economy?

10. It has been held that higher price results in the transfer of income from the consumer to the producer; whereas increased productivity through improved technology gives the producers similar benefits without such a transfer of income resulting in larger gains for the society as a whole. As such the policy should be to improve technology and increase productivity and should not emphasise higher price. Do you agree with this view? What should be the relative reliance on technology and price in the overall policy?

11. What is the role of consumer subsidy on agricultural commodities? How far can it be used in lieu of manipulation of producer price?

12.(a) At present, elaborate price and distribution policy covers cereals and gram. Supporting measures are also taken in respect of cotton, jute and sugarcane. In the case of other commodities like tobacco, oilseeds, spices etc. including exportable commodities mainly monetary and fiscal policies are relied upon; while there is no price policy in respect of milk (except in the case of urban milk supply schemes), animal husbandry products like eggs, poultry etc. Do you think the present coverage of price policy adequate? What, in your opinion, should be the commodity coverage of agricultural price policy?

(b) Should the prices of agricultural commodities be regulated statutorily? Prices of all commodities or only major commodities? What are your views about the capacity of State to regulate?

13. Fiscal and commercial policies can influence the intersectoral terms of trade directly. But price policy can do so only indirectly via the prices of individual commodities. The objective of inter-crop price relationship requires the adjustment of prices of individual commodities. It is generally considered desirable that the number of commodities covered by any agricultural price policy be as small as possible in view of heavy administrative burden. Moreover, a large number of commodities which are competing for the same land and other production resources if covered by a price guarantee programme the incentive effect of individual guarantee is likely to diminish. In view of this, what are the commodities you consider should be covered under the agricultural price policy. Should the price guarantees be restricted to commodities which are expected to remain in short supply for a considerable period of time?

14. Considering the interests of the vulnerable sections of the population, should there be a dual market in foodgrains where prices are partly controlled and partly left free to the market forces?

15. - The objective of the agricultural price policy being to ensure remunerative price for the producer and to protect the consumer from excessive rise in price and thereby achieve price stabilisation, what is the extent of reliance that can be placed on the following measures -

a) minimum support price;

b) statutory minimum floor price;

c) procurement price;

d) open market operations and provision of buffer stock;

e) direct distribution controls;

f) import export devices;

g) fiscal measures;

h) monetary measures; and

i) movement restrictions and zonal systems.

16. How far are the administered prices, for example, minimum support, statutory minimum, procurement/purchase and maximum prices suitable for achieving the desired increases in production under conditions of -

a) free trade;

b) partial control or levy;

c) complete take over of the trade.

17.(a) Should there be minimum support prices in order to ensure a reasonable income to the producer and a sense of security and stability?

(b) Should these prices be uniform throughout the country or should these vary?

(c) Should these be fixed for the entire marketing season or should these vary?

(d) If these are to vary, what should be the criteria for determining the order of variation over space and time?

18. Should producer price be fixed for a period of time with provision for periodical review? If so, what should be the period - Plan period? Or should it be fixed every season?

19. At what point of time minimum price should be announced - at sowing time? Should the producer's price be fixed at one point or within a range with minimum and maximum? Should the single point or the range be fixed on all-India basis or be different for different regions?

20. (a) What elements should be taken into account in fixing the minimum price?

(b) In calculating the cost of production, whose cost of production should be reckoned - those who have marketable surplus or all farmers or the average farmer? Is the "Bulk-line cost" concept appropriate? How does one make sure that inefficient cultivator is not encouraged?

(c) What are the elements which should be taken into account in calculating the cost?

(d) In fixing the minimum price what relative weight should be given to the following -

i) parity between prices received and prices paid by the producer;

ii) standard of living and consumption needs of the producer;

iii) relationship between the prices of agricultural commodities and the general price level. Should the producer price be determined keeping in view the general price level and the purchasing power of the consumer?

iv) relationship between the price of particular agricultural commodity and other agricultural commodities;

v) relationship between the prices of agricultural commodities and those of competing crops and synthetics;

vi) relationship between the prices of agricultural commodities and industrial goods. Should the prices of cotton, sugarcane, oilseeds etc. be determined in relation to the prices of products manufactured from them or should the prices of manufactured articles be adjusted to the agricultural commodities from which these are manufactured?

21. What should you consider as a reasonable base for the parities.

22. Name the regions for which you are answering the questions. If answers are in respect of more than one region, please use separate space for each region.

23. For what foodgrains would you recommend a support price announced before the showing season? (Please answer as per table I below)

24. What advantages do you see in price support?

25. What disadvantages do you see in price support?

26. Answer as per the following table I only for the crops for which you recommend a support price: What is the average yield, highest yield, average cost, support price, etc? How much above the cost of production per quintal should the support price be?

Table - I

| Crops | Average yield per acre(Qtls) | Highest known yield per acre | Average (paid-out)* Cost of production per acre (Rs/acre) | Average (paid-out) cost of production per Qtl. (Rs/Qtl) | Recommended support price per Qtl. (Rs./Qtl) | Percentage excess of support price over cost of production per Qtl. |
|---|---|---|---|---|---|---|
| KHARIF CROPS (1973) | | | | | | |
| (i) | | | | | | |
| (ii) | | | | | | |
| (iii) | | | | | | |
| (iv) | | | | | | |
| RABI CROPS (1973-74) | | | | | | |
| (i) | | | | | | |
| (ii) | | | | | | |
| (iii) | | | | | | |
| (iv) | | | | | | |

* Paid-out cost includes cash and kind expenditure on items like hired human labour, bullock labour, machine labour, seed, manure, fertiliser pesticides, land revenue and cess, irrigation charges, depreciation charges of implements, machinery and buildings and interest on working capital but excludes imputed value of farmers own and his family's labour rent paid for lease in land, imputed rent on own land and imputed interest on owned fixed capital(excluding land).

27. What should be the long-term and short-term policy in respect of procurement prices? Should the objective be to bring out the marketable surplus or should the objective be to mop up only the marketed surplus?

28. Should the procurement prices be different from the minimum support price? It has been held that the procurement price should be above the minimum price when there is shortage but when there is surplus production, the procurement price would necessarily have to be the same as the minimum price. What is your view?

29. Should the procurement price be kept stable over a period or vary according to the shortages and surpluses to encourage and discourage production respectively as also to ensure a fixed cash income to the farmers? Should the variation be uniform in the country or different according to different situations in different regions?

30. Are producers with holding larger part of the productior less being marketed immediately or shortly after the harvest? Do you find evidence of this tendency in slowe market arrivals?

31. How far is the levy system an appropriate and effective instrument in getting the marketable surplus? Would you suggest a system of graded levy so that the focus is on the bigger producers?

32. (a) Do you recommend procurement of foodgrains with a graded levy system at the support price? YES/NO

(b) If yes, which foodgrains should be subjected to such a levy? Please name them.

33. (a) Should the levy price be higher than the support price? YES/NO

(b) If yes, how much higher should it be in percentage terms? Please answer as per table II below. What are the reasons for a higher levy price?

34. What, in your opinion, should be the slabs of the levy and what percentage of grain output should be collected through each slab?
For example -

0 - 5 acres : 0 percent, 1%, 2% etc?

5 - 10 acres : 15 %, 20% etc?

Please answer as per table II in respect of each major crops.

35. What percentage of produce of the commodity in question will be procured with the levy system? (This may be answered as per the last col. of table II).

Table - II

| CROPS | Percentage excess of levy price over support Price | Slab of the levy system and percentage of output to be collected: Slab | Size of holding | %age of production to be given as levy | What percent of total production do you expect to be procured through levy? |
|---|---|---|---|---|---|
| 1. | | 1 | | | |
| | | 2 | | | |
| | | 3 | | | |
| | | 4 | | | |
| | | 5 | | | |
| 2. | | 1 | | | |
| | | 2 | | | |
| | | 3 | | | |
| | | 4 | | | |
| 3. | | 1 | | | |
| | | 2 | | | |
| | | 3 | | | |

36. Should there be monopoly procurement by official agencies or should procurement be done through millers and traders or should there be a mix of the two devices?

37.(a) Should the procurement price be announced before harvest or should it be left unannounced so that the procuring authority retains its freedom to buy at any price?

(b) What are the advantages of a prior announcement of procurement price and what are the dis- advantages?

(c) If there is to be prior announcement, what in your opinion, should be the procurement prices for various crops in Kharif 1973 season/Rabi 1973-74 season? Give reasons for the recommended price. (Please answer as per table III).

Table - III

| Crops | Recommended procurement price (Rs./per quintal) | Remarks/reasons for recommended price |
|---|---|---|
| Kharif 1973. | | |
| Rabi 1973-74 | | |



38. If the levy does not meet the target of grain procurement would you recommend buying at a flexible unannounced price depending upon the region (surplus or deficit), the goodness of the crops (market arrivals) etc.?

39. Is it unfair that the Government or the buying authority should change the buying price in mid- season or from time to time?

40. Is it unfair that private wholesale or retail traders should buy at different prices in different parts of the season?

41. What is your view on the take-over of the wholesale trade in foodgrains? Should it be restricted only to the superior cereals or be extended to coarse grains also?

42.(a) What are the important (main) sources of finance for the farmer which enable him to hold longer to his stocks? Do the funds supplied by the traders or mill-owners form the major source? If so, should the official credit and marketing agencies and procurement agencies step in and supply the producer with his need to pre-empt the marketable surplus in their favour?

(b) Is the procurement/purchase net-work sufficiently spread out to undertake this task? If not, what are your suggestions in this regard?

43. Producers do not often get the advantage of higher prices. What is your experience? What marketing and purchase arrangements would you suggest to resolve this problem? Do you think that the bonus system is an effective instrument to induce the producers to part with their marketable surpluses? If yes, in what manner should this be operated?



44. Please indicate your views on the following:-

i) The procurement price may be different in different States based on the production levels in the year in the State and aiming at getting control over the marketable surplus.

ii) States, specially the deficit ones or the marginally surplus ones, should look after a good part of their sensitive areas by their own purchases. Their sale price should be adjusted if need be at higher level than the all-India price for the classes who can pay. For the vulnerable sections, a basic subsidy will be borne by the Centre and the extra subsidy should be borne by the State.

iii) The Centre should concentrate purchases in the surplus states and districts and at the normal fair prices which should be announced well ahead of the sowing season. Centre's responsibility should be the strategic areas and the sensitive sectors and the deficiencies in the various States due to climatic vagaries like droughts and floods.

iv) In sensitive areas and the metropolitan towns, there should be a strict rationing procedure so that the beneficiaries are known and the distribution arrangements are fully organised to meet this.

v) The Centre should maintain buffer stock for the nation. Issues from the buffer stocks should be on well laid-down principles. The expenditure on this should be a Central responsibility.

45. What are your views on Zonal restrictions? Should they be imposed during the periods of

a) Shortage; and

b) Surpluses?

46. What should be the basis for determining the issue price?

47. After ensuring a fair price to the producer, it may be necessary to subsidise the issue price of foodgrains to the consumer. Should it be uniformly subsidised or only selectively? Should there be therefore a dual pricing system in the issue price, the coarser quality being subsidised for the weaker sections and the better quality being sold without any subsidy to the better-off section? If so, what should be the criteria for identifying the weaker sections?

48. If the weaker sections and industrial labour are immunised by adequate supplies through fair price shops, the pressure on the open market will be relieved and the open market prices will settle at reasonable levels. Do you think this could be a major plank of the policy to stabilise the prices?

49. There is a feeling that the Consumer Price Index now compiled which is based on issue prices, does not reflect the actual trends in the prices paid by the consumer where he has to augment the supplies from fair price shops by purchases from the open or black market at very high prices. What is your view on this? How could this defect be removed?

50. It has been suggested that the issue price should be kept stable over time, but the procurement price varied according to surpluses and shortages. The larger difference between the procurement price and the issue price in surplus areas would be utilised to create a fund which might enable the payment of higher procurement prices in times of shortages. What is your view?

51. If grain procurement/levy is unsatisfactory, would you recommend conserving the public stocks through an increase in the issue price of the grain in the fair price shops?

52. If grain procurement/levy is unsatisfactory, which of the following instruments would you use to get over the difficulty:

i) reduce the target for procurement;
ii) raise the purchase/procurement price;
iii) raise the issue price;
iv) raise the subsidy.

Mention first which of the above items of policy you will not use. Among the remaining items, please arrange them in an order of priority in your judgement.

53. Would you recommend grain purchases by the procuring authority be made without interfering with the market price but with the right of pre-emption? What are the advantages and disadvantages?

54. What should be the rational distribution policy which should be adopted with the objective of protecting the interests of the consumer including the rural poor?

55. Do you consider the present net-work of fair price shops in the country adequate to have a stabilising effect on general prices? If not, what are your suggestions?

56. Do you think that the functioning of the fair-price shops is satisfactory? If not, what are your suggestions for improvement?

57. Would you advocate full rationing in industrial towns and metropolitan cities?

58. What is the role of buffer stocks in evening out the price variations over time?

59. Should the buffer stocks be restricted to cereals, and gram or should there be buffer stocks policy in respect of other sensitive agricultural commodities also? If so, which are these commodities?

60. The terms of reference of the Agricultural Prices Commission are given in the Enclosure.* Do you think that these terms of reference are adequate? If not, what modification would you suggest?

61. Do you think that the Agricultural Prices Commission as constituted now is in a position to discharge the responsibilities entrusted to it satisfactorily or do you think the Commission needs strengthening?

62. Do you think the present composition of the Agricultural Prices Commission adequate? Or do you think the Commission should be enlarged? Should there be representation of the various interests on the Commission or should these interests be represented on an Advisory Body which could assist the Commission?

63. Do you think that the recommendations of the Agricultural Prices Commission should have statutory backing as in the case of the recommendations of the Tariff Commission? Please give reasons for your views?

64. Do you think that the present institutional arrangements including the Food Corporation of India for procurement and distribution satisfactory and adequate? If not, what modifications/alternatives/additional arrangements would you like to suggest?

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* See Appendix VIII.

65. What are your views on the working of the Food Corporation of India? Do you have any suggestion to make to streamline their operations in order to make them more effective?

66. What are your views on the working of the Cotton Corporation of India and Jute Corporation of India? Do you think these institutional arrangements are adequate to stabilise prices and ensure a fair return to the producer? If not, what modifications/ improvements would you suggest in their working?

67. Is there any case for having such Corporations for other commodities? If so, which are the commodities which you think should be brought under such institutional arrangements? Give reasons.

68. What are your views on the working of State agencies in the matter of procurement and distribution? Do you have any suggestions to make?

69. What are your views on the effectiveness of the cooperative sector in implementing the price policy, in the matter of procurement and distribution? Do you think that they need modifications/ improvements? If so, what are they?

70. Adequate and uptodate data on costs of production, costs of living and uptodate market intelligence are required for implementing the price policy. Do you have any suggestions to make for improvement in the quality and quantity and the data?

APPENDIX - II

## LIST OF MEMBERS OF THE PANEL OF AGRICULTURAL ECONOMISTS

1. Prof. M.L. Dantwala, Chairman
President,
Indian Society of Agricultural Economics,
Bombay.

2. Prof. P.K. Bardhan,
Indian Statistical Institute,
New Delhi.

3. Dr. I.Z. Bhatty,
Director,
National Council of
Applied Economic Research,
New Delhi.

4. Prof. V.M. Dandekar,
Director,
Gokhale Institute of Politics and Economics,
Poona.

5. Dr. D.K. Desai,
Indian Institute of Management,
Ahmedabad.

6. Prof. N.S. Iyengar,
Department of Economics,
Osmania University,
Hyderabad.

7. Dr. P.C. Joshi,
Economic Adviser,
Railway Board,
New Delhi.

8. Prof. A.M. Khusro,
Vice-Chancellor,
Aligarh Muslim University,
Aligarh
and
Member,
National Commission on Agriculture,
New Delhi.

9. Dr. Raj Krishna,
University of Rajasthan,
Jaipur
(At present out of India)

10. Dr. Ashok Mitra,
Indian Institute of Management,
Calcutta.

11. Dr. Dharm Narain,
Chairman,
Agricultural Prices Commission,
New Delhi.

12. Dr. K.N. Raj,
Director,
Centre for Development Studies,
Trivandrum (Kerala)

13. Dr. C.H. Hanumantha Rao,
Senior Fellow,
Institute of Economic Growth,
Delhi.

14. Dr. Ashok Rudra,
Vishwa Bharti University,
Shantiniketan,
(West Bengal).

15. Shri Ram Saran,
Economic & Statistical Adviser
and Member Secretary,
Agricultural Prices Commission,
Ministry of Agriculture & Irrigation,
New Delhi.

16. Prof. T.N. Srinivasan,
Indian Statistical Institute,
New Delhi.

17. Dr. A. Vaidyanathan,
Planning Commission,
New Delhi

(At Present out of India)

18. Dr. V.S. Vyas,
Indian Institute of Management,
Ahmedabad.

APPENDIX III

RELATIVE PRICES OF AGRICULTURAL COMMODITIES AND NON-AGRICULTURAL COMMODITIES

| Year (July-June) | General Index of wholesale Prices | | Index for Agricultural Commodities | | Index for Non-agricultural Commodities | | Prices of Agricultural Commodities as percentage of non-agricultural commodities |
|---|---|---|---|---|---|---|---|
| Weights | 1000 | | 332 | | 668 | | |
| | Index | Percentage increase | Index | Percentage increase | Index | Percentage increase | - |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| Annual Averages | | | | | | | |
| 1961-62 | 100.6 | - | 100.4 | - | 100.7 | - | 99.7 |
| 1962-63 | 105.2 | 4.6 | 102.9 | 2.5 | 106.4 | 5.7 | 96.7 |
| 1963-64 | 112.3 | 6.7 | 112.4 | 9.2 | 112.3 | 5.5 | 100.1 |
| 1964-65 | 124.6 | 11.0 | 134.0 | 19.2 | 119.9 | 6.8 | 111.8 |
| 1965-66 | 135.9 | 9.1 | 147.5 | 10.1 | 130.1 | 8.5 | 113.4 |
| 1966-67 | 155.2 | 14.2 | 174.0 | 18.0 | 145.9 | 12.1 | 119.3 |
| 1967-68 | 167.0 | 7.6 | 185.2 | 6.4 | 158.0 | 8.3 | 117.2 |
| 1968-69 | 166.6 | (-)0.2 | 183.1 | (-) 1.1 | 158.4 | 0.3 | 115.6 |
| 1969-70 | 174.3 | 4.6 | 198.8 | 8.6 | 162.1 | 2.3 | 122.6 |
| 1970-71 | 182.1 | 4.5 | 198.9 | 0.1 | 173.8 | 7.2 | 114.4 |
| 1971-72 | 191.2 | 5.0 | 200.7 | 0.9 | 186.5 | 7.3 | 107.6 |
| 1972-73 | 216.2 | 13.1 | 234.3 | 16.7 | 207.2 | 11.1 | 113.1 |
| 1973-74 | 271.2 | 25.3 | 299.5 | 27.8 | 256.8 | 23.9 | 116.6 |

Note: The indices are derived on the basis of Index Numbers of Wholesale Prices (Base: 1961-62 = 100)

Source: Report on Currency and Finance 1973-74, - Reserve Bank of India, page 70.

APPENDIX IV

## COST OF PRODUCTION OF WHEAT 1971-72

| State | Variety | No. of holdings studied | Area under the crop (hectares) | Cost of cultivation* (Rs. per hectare) | Yield (Qtls. per hectare) | Cost of production (Rs. per Quintal) |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. Haryana | High Yielding | 176 | 952.93 | 1,048.43 | 21.30 | 49.23 |
| | Local | 23 | 55.34 | 952.81 | 17.63 | 54.04 |
| | Total Wheat | 196(+) | 1,008.27 | 1,039.13 | 20.98 | 49.53 |
| 2. Punjab | High Yielding | 195 | 1,046.93 | 1,586.34 | 26.50 | 59.51 |
| | Local | 18 | 15.11 | 1,309.28 | 18.37 | 71.27 |
| | Total Wheat | 200(+) | 1,062.04 | 1,578.26 | 26.43 | 59.71 |
| 3. Uttar-Pradesh | High @ Yielding | 278 | 712.16 | 1,110.83 | 22.80 | 48.72 |
| | Local | 45 | 166.08 | 759.10 | 14.23 | 53.33 |
| | Total Wheat | 303(+) | 878.24 | 1,088.90 | 21.61 | 50.38 |



(*) Net of value of by-product.

(+) Includes some holdings which grow both high yielding and local varieties.

(@) Includes improved varieties also.

SOURCE:- Reports on Cost of Production of Wheat (1971-72) - Comprehensive Schemes (Directorate of Economics and Statistics, Ministry of Agriculture).

APPENDIX V

## COST OF PRODUCTION OF WHEAT BY SOURCE OF IRRIGATION, 1971-72

| Source of Irrigation | No. of holdings | Area under the crop (hectare) | Cost of cultivation* (Rs. per hectare) | Yield (Qtls. per hectare) | Cost of production (Rs. per quintal) |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| | | HARYANA | | | |
| Tubewells (+) | 70 | 411.75 | 1,198.57 | 22.11 | 54.21 |
| Tubewells (+) and Canal | 54 | 360.33 | 1,001.10 | 20.62 | 48.55 |
| Canal | 53 | 182.18 | 934.41 | 21.86 | 42.75 |
| Other Sources | 7 | 10.60 | 1,182.84 | 21.41 | 55.25 |
| Unirrigated | 12 | 43.41 | 819.10 | 14.68 | 55.80 |
| | | PUNJAB | | | |
| Tubewells (+) | 116 | 685.06 | 1,698.41 | 29.60 | 57.38 |
| Tubewells (+) and Canal | 46 | 261.31 | 1,398.62 | 22.76 | 61.45 |
| Canal | 30 | 79.58 | 1,497.60 | 20.18 | 74.21 |
| Other Sources | 6 | 29.62 | 1,407.94 | 21.67 | 64.97 |
| | | UTTAR PRADESH | | | |
| Canal | 64 | 85.99 | 1,095.21 | 21.89 | 50.03 |
| Well | 25 | 40.57 | 1,102.84 | 19.78 | 55.76 |
| Canal & Well | 19 | 58.49 | 1,205.13 | 24.47 | 49.25 |
| Tubewells (%) | 181 | 531.95 | 1,074.61 | 21.81 | 49.27 |
| Unirrigated | 14 | 161.24 | 521.57 | 15.77 | 33.07 |

(*) Net of value of by-product.

(+) Including wells with power driven pump sets.

(%) Including pump sets.

Source:- Reports on Cost of Production of Wheat (1971-72) - Comprehensive Scheme (Directorate of Economics and Statistics, Ministry of Agriculture).

APPENDIX VI

## ESTIMATES OF REQUIREMENTS FOR DISTRIBUTION OF CEREALS THROUGH FAIR PRICE SHOPS IN 1975 - ALL INDIA

| CATEGORY | Estimated population as on 1st March, 1975 (million persons) | Total Units * (million) | Requirements in million tonnes @ |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| A. Class I cities excluding those in surplus areas in surplus States and cities in Jammu and Kashmir and Kerala and those included in Consumer Price Index | 28 | 24 | 2.97 |
| B. Cities included in Consumer Price Index excluding those in Jammu & Kashmir and Kerala | 37 | 32 | 3.97 |
| C. Chronically Drought Prone Areas excluding those included in Class I cities and big cultivating households | 41 | 35 | 2.91 |
| D. Flood Affected Areas | 30 | 26 | 0.81 (+) |
| E. Jammu & Kashmir and Kerala | - | - | 1.26 |
| Total requirements (A to E) | | | 11.92 |

* 86% has been taken as conversion factor and figures have been rounded off.
@ Requirements at the rate of 12 oz (about 340 gms) per unit per day except in the case of item C.
(+) Provision for three months only

Note: A. Class I cities include cities having population over 1 lakh as classified in 1971 Census.

B. All cities covered under the All-India Consumer Price Index for industrial Workers.

C. The areas as identified in the Report of the Irrigation Commission. For Drought Prone Areas, an average supply of 8 ozs (about 227 gms) per unit per day has been taken.

D. Population affected on an average by serious floods.

E. Based on actual supplies during 1972 adjusted for estimated increase in population in 1975.

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QUANTUM OF CEREALS ISSUED(*) UNDER THE PUBLIC DISTRIBUTION SYSTEM

(Thousand Tonnes)

| State/Union Territory | | 1966 | 1967 | 1971 | 1972 | 1973 |
|---|---|---|---|---|---|---|
| (1) | | (2) | (3) | (4) | (5) | (6) |
| 1. Andhra Pradesh(+) | | | | | | |
| | Rural | NA | NA | NA | NA | NA |
| | Urban | NA | NA | NA | NA | NA |
| | Total | 418 | 401 | 132 | 307 | 322 |
| 2. Bihar | | | | | | |
| | Rural | NA | NA | NA | NA | NA |
| | Urban | NA | NA | NA | NA | NA |
| | Total | 920 | 1,939 | 415 | 669 | 418 |
| 3. Gujarat | | | | | | |
| | Rural | NA | NA | NA | NA | NA |
| | Urban | NA | NA | NA | NA | NA |
| | Total | 816 | 809 | 54 | 229 | 747 |
| 4. Haryana (£) | | | | | | |
| | Rural | NA | NA | NA | NA | NA |
| | Urban | NA | NA | NA | NA | NA |
| | Total | 73(++) | 42 | 133 | 210 | 89 |
| 5. Karnataka | | | | | | |
| | Rural | 423 | 148 | 143 | 195 | 200 |
| | Urban | 322 | 185 | 153 | 132 | 153 |
| | Total | 745 | 333 | 296 | 327 | 353 |
| 6. Maharashtra | | | | | | |
| | Rural(x) | 1,264 | 701 | 390 | 800 | 1,330 |
| | Urban(xx) | 738 | 878 | 432 | 463 | 804 |
| | Total | 2,002 | 1,579 | 822 | 1,263 | 2,134 |
| 7. Orissa | | | | | | |
| | Rural | 126 | 106 | 110 | 212 | 134 |
| | Urban | 116 | 95 | 103 | 185 | 108 |
| | Total | 242 | 201 | 213 | 397 | 242 |
| 8. Rajasthan | | | | | | |
| | Rural | 166 | 181 | - | 30 | 177 |
| | Urban | 366 | 241 | 29 | 125 | 234 |
| | Total | 532 | 422 | 29 | 155 | 411 |

(*) From Central Sales Depots/F.C.I. and State Governments.

| State/Union Territory | 1966 | 1967 | 1971 | 1972 | 1973 |
|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) |
| 9. Uttar Pradesh | | | | | |
| Rural | NA | NA | NA | NA | NA |
| Urban | NA | NA | NA | NA | NA |
| Total | NA | NA | NA | 401@ | 280@ |
| 10. West Bengal | | | | | |
| Rural | 575 | 156 | 767 | 869 | 697 |
| Urban | 1,579 | 1,110 | 1,519 | 1,483 | 1,297 |
| Total | 2,154 | 1,266 | 2,286 | 2,352 | 1,994 |
| 11. Delhi ($) | | | | | |
| Rural | 42 | 46 | 19 | 36 | 48 |
| Urban | 343 | 373 | 169 | 325 | 428 |
| Total | 385 | 419 | 188 | 361 | 476 |
| 12. Goa, Daman & Diu | | | | | |
| Rural | 27 | 27 | 28 | 33 | 37 |
| Urban | 13 | 14 | 12 | 17 | 19 |
| Total | 40 | 41 | 40 | 50 | 56 |
| 13. Pondicherry(@@) | | | | | |
| Rural | NA | NA | 0.5 | 3 | 3 |
| Urban | NA | NA | 1.0 | 12 | 8 |
| Total | NA | NA | 1.5 | 15 | 11 |

NA Not Available.

(+) Data relate to crop years November to October, 1966-67, 1967-68, 1970-71 and so on.

(£) Data relate to financial years, 1966-67 and so on.

(++) For the last five months only.

(x) Rural areas include towns and taluk headquarters where neither statutory nor informal rationing has been introduced.

(xx) Excludes allotment to roller flour mills.

(@) Covers wheat only.

($) Rural-urban distribution is based on population estimate.

(@@) Covers wheat and rice; for 1971, however, data for wheat only are available.

# Government of India Resolutions on the Terms of Reference of the Agricultural Prices Commission.

No. 6-2/65-C(E)
Government of India
Ministry of Food and Agriculture
(Department of Agriculture)

New Delhi, the 8th January, 1965

## RESOLUTION

Government of India have had under consideration for some time the question of setting up a body to provide advice on a continuing basis on agricultural price policy, and price structure in the context of the need to raise agricultural production and give relief to the consumer. They have now decided to set up an Agricultural Prices Commission with Prof. M.L. Dantwala, Head of the Department of Economics, University of Bombay, as Chairman.

The terms of reference of the Commission shall be as follows:-

1. To advise on the price policy of agricultural commodities, particularly paddy, rice, wheat, jowar, bajra, maize, gram and other pulses, sugarcane, oilseeds, cotton and jute with a view to evolving a balanced and integrated price structure in the perspective of the overall needs of the economy and with due regard to the interests of the producer and the consumer.

1.1 While recommending the price policy and the relative price structure, the Commission may keep in view the following:-

i) The need to provide incentive to the producer for adopting improved technology and for maximising production;

ii) The need to ensure rational utilisation of land and other production resources;

iii) The likely effect of the price policy on the rest of the economy, particularly on the cost of living, level of wages, industrial cost structure, etc.

1.2 The Commission may also suggest such non-price measures as would facilitate the achievement of the objectives set out above.

2. To recommend from time to time, in respect of different commodities, measures necessary to make the price policy effective.

3. To examine, where necessary, the prevailing methods and cost of marketing of agricultural commodities in different regions, suggest measures to reduce costs of marketing and recommend fair price margins for different stages of marketing.

4. To keep under review the developing price situation and to make appropriate recommendations, as and when necessary, within the frame-work of the overall price policy.

5. To keep under review studies relating to the price policy and arrangements for collection of information regarding agricultural prices and other related data and suggest improvements in the same.

6. To advise on any problems relating to agricultural prices and production that may be referred to it by Govt. from time to time.

7. The Commission will maintain close touch with other agencies dealing with matters having a bearing on prices and production, including the steering group on Wages, Income and Savings Policy and the Food Corporation of India. The Commission will determine its own procedures. It will be free to call for notes, momoranda, results of studies, data and any other material relevant to its work from official and non-official bodies, and hold discussions with them.

The Commission will submit reports to Government as and when necessary in respect of different commodities or groups thereof. The Commission is set up initially for a period of three years and may continue thereafter as long as necessary.



Sd/-
(G.R. KAMAT)
Secretary to the Government of India.

No. 6-32/69-Econ.Py.
Government of India
Ministry of Food, Agriculture C.D. & Coopn.
(Department of Agriculture)

New Delhi, the 26th May, 1970.
5th Jyaishtha, 1892 (Saka)

Resolution

The Government of India have decided that the Agricultural Prices Commission, which was set up in the Ministry of Food and Agriculture (Department of Agriculture) Resolution No. 6-2/65-C(E), dated the 8th January, 1965, be placed on permanent footing with effect from the 1st May, 1970.

It has also been decided that the following items will be added to the terms of reference of the Commission:-

"7. To undertake studies in respect of plantation crops in the manner prescribed by Government from time to time."

Sd/-
(T.P. Singh)
Secretary to the Govt. of India.

## SUMMARY OF RECOMMENDATIONS

### APPROACH TO AGRICULTURAL PRICE POLICY

1. The assurance of remunerative prices to the farmers is a necessary condition for encouraging investment in agriculture and for adoption of modern technology without which agriculture cannot develop. At the same time, the agricultural price policy should be formulated keeping in view its impact on the general price situation and on the economy as a whole. The policy should be in alignment with the country's overall economic policy and should facilitate growth with stability.

(Paragraphs 3.2 and 3.5)

2. Reliance should not be placed on price as the principal mechanism for augmenting production in a situation where shortages run across the board. Such a policy will only add to price rise without yielding higher production. The increases in output and the farmers' income will have to be brought about mainly through technological improvement and availability of crucial inputs rather than by manipulation of prices.

(Paragraphs 3.6 and 3.7)

3. Since the shortage or near-self-sufficiency in most of the agricultural commodities is likely to continue for the next 10 to 15 years, the price policy should take note of this situation, which is often accentuated by speculative hoarding.

(Paragraph 3.12)

4. The major aim of agricultural price policy should be to correct distortions, which are socially or economically harmful and which emerge from time to time because of the imperfections of the market mechanism. Being parts of the same price policy, the interests of the producers should be safeguarded through price support operations, when there is a sharp fall in prices; and the interests of the consumers, particularly the vulnerable sections of the population, should be protected through procurement and distribution of a part of the marketable surplus at below the market price, when there is a sharp rise in prices of basic necessities such as cereals.

(Paragraph 3.13)

5. Public distribution of essential commodities will have to be a permanent or semi-permanent feature of economic management in the country in the context of shortages. In order to ensure the efficient functioning of the public distribution system in respect of cereals, the Department of Food in the Ministry of Agriculture and Irrigation should prepare, in consultation with the Agricultural Prices Commission and the States, a National Food Budget every year after taking a realistic view of the requirements and availability. The targets for internal procurement of cereals should be laid down on the basis of this Budget.

(Paragraph 3.15)

6. The dual pricing and dual availability system in vogue in this country in respect of cereals and sugar should be continued until an overall balance between supply and demand is achieved on a durable basis in respect of these commodities.

(Paragraph 3.16)

7. Considering the limitations of inter-commodity parity approach under Indian conditions, it cannot be made the basis for fixing agricultural prices for all crops; however, in the case of a few competing crops, like paddy and jute, this can be taken into consideration while fixing support prices.

(Paragraph 3.21)

8. In fixing prices, it is not necessary to seek to achieve parity between domestic and international prices. The right policy would be pooling of prices, when there are imports, in the interest of both the producers and the consumers.

(Paragraphs 3.22 and 3.23)

9. An integrated price policy involving inter-sectoral price-parity, however desirable, is difficult under Indian conditions and should not be made a basis for formulating agricultural price policy.

(Paragraph 3.24)

10. The price fixation should take into account the fluctuations in the prices of inputs. The output prices should generally not be out of alignment, for long, with the package of input prices.

(Paragraph 3.25)

11. Automatic linkages between the prices received by the farmer for his produce and the prices paid by him for the consumer goods commonly used by the farmers will be self-defeating and need not be attempted. However, Index Numbers of Parity between the prices received and the prices paid by the farmers both for domestic and farm expenses should be constructed so that a watch can be kept on the behaviour of the parity and corrective measures taken whenever the parity gets unduly against the farmer.

(Paragraph 3.26)

12. As the prices of agricultural commodities are expected to take into account changes in input prices, widespread use of input subsidy as incentive to increase production should, by and large, be avoided, except in the case of small and marginal farmers and difficult areas. In the latter case, a transport subsidy will be in order. However, for promotional effort in specific cases, time-bound input subsidy will be justified.

(Paragraphs 3.27 to 3.30)

MINIMUM SUPPORT PRICES

13. Agricultural price policy must in all circumstances embrace within its core a policy of offering minimum support prices for the principal crops in order to encourage investment and adoption of improved technology. The minimum support price should be fair to the farmer and should cover his cost of production and leave him a reasonable margin of profit.

(Paragraphs 4.1 and 4.2)

14. In the calculation of costs, the family labour should continue to be evaluated on the basis of the wage rate for attached labour.

(Paragraph 4.9)

15. No specific allowance need be made in the cost on managerial account, when it is not actually incurred by keeping hired managers.

(Paragraph 4.10)

16. Since the available data on costs do not provide a firm basis for price fixation, because of wide variation and several other limitations, effort should be made to develop and use an index number system for the principal crops to take into account year to year changes in the costs of production.

(Paragraph 4.22)

17. Till the index number system can be developed, the Agricultural Prices Commission should make an informed judgement about fair minimum support price, taking into account the available data on the costs of production, and after consulting its advisory Panels.

(Paragraph 4.23)

18. The existing practice of fixing a uniform all-India minimum support price should continue. However, in specially high cost areas, a differential price may be allowed, the difference being limited to the cost of transport from the nearest area producing

the same crop, where the uniform price is applicable. The support price should be announced well ahead of the sowing season to facilitate investment decisions by the farmers.

(Paragraphs 4.24 and 4.25)

PROCUREMENT AND DISTRIBUTION SYSTEM
(for cereals)

19. In a shortage situation, procurement prices of cereals have to be below the prevailing market prices in order to subserve the needs of the public distribution system. Since the issue price has to be related to the purchasing capacity of consumers with low income, the procurement prices, although higher than the minimum support prices, cannot be much above the issue prices minus the cost of distribution plus, at best, a small element of subsidy.

(Paragraph 5.4)

20. The public distribution system should be geared to take care, to a greater extent than hitherto, of those whose purchasing capacity is limited or is affected by natural calamities. The system should normally cover (i) all cities and towns with population over one lakh excluding those in surplus areas in surplus States; (ii) all industrial towns covered under the scheme of All-India Consumer Price Index Numbers for Industrial Workers; and (iii) drought prone and flood affected areas. The modified rationing system, which is working in the rural and urban areas of Jammu &

Kashmir and Kerala, may also have to be continued for some time to come.

(Paragraph 5.8)

21. In order to meet the requirement of the areas and the population through the public distribution system, the guiding principle should be to aim at a procurement of 12 per cent of cereal production on an average by the public authority for the next few years. This may imply a procurement of 12 million tonnes in 1975, comprising 5 million tonnes each of rice and wheat and 2 million tonnes of coarse cereals.

(Paragraphs 5.12 and 5.13)

22. The practice of paying wages in kind to the agricultural labourers should be maintained. This will enable these poor workers to meet their food requirement and thereby lessen their hardship.

(Paragraph 5.14

23. The major operational instrument for procurement of cereals should be the well-tried system of compulsory graded levy on producers, millers as well as on hullers. The entire requirement of grain for the public distribution system can be collected through this instrument, if it is adequately supported with legal sanctions and administrative arrangements as well as political backing. The rate of levy in each State should be decided on the basis of its procurement target laid down under the National Food Budget.

Such exemptions/relief for the smallest farmers, as may be deemed necessary, could, however, be considered. Due allowance should also be made for differences in output levels between irrigated and unirrigated areas.

(Paragraph 5.19)

24. Other forms of procurement, such as pre-emptive purchases of wheat in heavily surplus areas of Punjab and Haryana and and levy on traders for coarse cereals, in areas where their production is dispersed, could be considered, provided that through these methods the procurement targets determined under the National Food Budget are reached by the concerned State.

(Paragraphs 5.23 and 5.24)

25. The system of levy on the producers of commercial crops, who are required to pay it in terms of grain, has much to commend itself. The result of the Maharashtra experiment deserves to be watched.



(Paragraph 5.25)

26. In the event of land revenue being collected in kind, there would be a case for correspondingly reducing the compulsory levy commitment of the farmers.

(Paragraph 5.26)

27. While preparing the National Food Budget, the availability not only of the surplus in surplus States but also of the surplus of the surplus farmers and surplus areas in the deficit States should be taken into consideration.

(Paragraph 5.28)

28. Considering the importance of the relevant statistics, suitable arrangements should be made to collect, as precisely as possible, information about the public distribution of cereals in rural and urban areas separately in order to decide the quantum required for future distribution.

(Paragraph 5.29)

29. If additional quantities of cereals are purchased by the Government from the open market, this should be done without announcement of either the proposed quantum of purchases or the price. Its buying agency, the Food Corporation of India, should develop appropriate communication and market intelligence system so that it can switch purchases to the most advantageous market, thereby developing a good deal of efficiency in the operations.



(Paragraphs 5.30 and 5.31)

30. After the realisation of the levy by a State, the State Government should be given the option to remove restrictions on the movement of foodgrains. However, the question whether the obligations of levy by a State have been fulfilled or not should be decided not by the concerned State, but by the Central Government.

(Paragraph 5.32)

31. In the interest of both the producers and the consumers, the marketing margins allowed in

procurement and distribution of cereals should be reviewed and reduced, wherever possible.

(Paragraph 5.33)

32. Buffer-stock of foodgrains being an integral part of the public distribution system, a view should be taken, while preparing the National Food Budget, on the level of stocks to be maintained and the manner in which these should be built up. The location of these stocks should be planned keeping in view the coverage of the public distribution system so as to avoid cross movements and the costs involved therein and the stocks should be released only through the public distribution system. The stocks should be rotated reasonably quickly to reduce deterioration and losses arising out of long storage.

(Paragraphs 5.34 and 5.35)

33. The practice of announcing the procurement price before the harvest should continue. There should not be any mid-season change in the procurement price.

(Paragraph 5.36)

34. While an all-India procurement price is desirable, small extra payments would be permissible in a State, where production might have suffered relatively more, provided the extra element is kept within limits and its impact on the pooled price of grain issued from the public distribution system is marginal.

(Paragraph 5.37)

35. The procurement agency should gear up its arrangements for purchase of grain from the small farmers early in the marketing season so that they get a proper price for their produce.

(Paragraph 5.38)

COMMERCIAL CROPS

36. The considerations in fixing minimum support prices for commercial crops are the same as in the case of food crops. Apart from the major commodities already covered by it, the Agricultural Prices Commission should watch the price trends of other important commercial crops and make its recommendations, in appropriate cases, regarding the minimum support prices and the measures necessary to make them effective.

(Paragraph 6.3)

37. Adequate arrangements should be made by the concerned Corporation for making purchases not only from the established markets but also from interior markets and producing areas as the marketing season for a particular crop starts. This step will help particularly the small growers.

(Paragraph 6.4)

38. When prices tend to be low following a bumper crop, it is necessary for the purchasing agency to make support purchases of surplus production in excess of the immediate demand and build a buffer-stock, which can be used for stabilising prices in lean years and for export.

(Paragraph 6.5)

39. Even in a situation of generally high prices in the established markets, the Corporation and other buying agencies should be in a position to make purchases in specific pockets/areas, where prices are relatively low.

(Paragraph 6.6)

40. In a situation of shortage and high prices, the Corporations, to be effective, should have sufficient turnover of their stocks. The prices, at which the Corporations and other agencies are to buy, should be determined after taking into account their impact on the domestic industry, the economy and exports. The Agricultural Prices Commission should provide necessary guidance to the purchase organisations in this matter.

(Paragraphs 6.8 and 6.9)

41. Adequate arrangements should be made for promotional purchases of new commodities in order to establish the cultivation of these new crops widely.

(Paragraph 6.11)

42. Since the establishment of a separate agency for each crop for price support and other operations will add to overhead costs, the possibility of setting up a single Agaicultural Commodity Corporation of India for commodities other than cotton and jute, for which separate corporations

have already been established, and tobacco, for which a Board is envisaged, should be considered.

(Paragraph 6.12)

ARRANGEMENTS FOR ADVISING THE GOVERNMENT

43. The terms of reference of the Agricultural Prices Commission do not require any change. Insofar as the marketing aspects included in the terms of reference are concerned, the Commission should be concerned with only those aspects of marketing arrangements which have an impact on prices and may indicate its views for administrative action.

(Paragraph 7.5)

44. The Agricultural Prices Commission should continue as an independent advisory body for technical assessment and opinion and have a complement of four members. An eminent economist should be its Chairman. Its Member Secretary should also be an agricultural economist or statistician experienced in agricultural policy. The third Member should be an agricultural scientist experienced in problems of production. The fourth Member should be a non-official with understanding of agricultural production and consumer problems.

(Paragraphs 7.7 and 7.8)

45. The arrangements for consultation need strengthening. In addition to the present practice of appointing the Panel of Farmers, another Technical Panel should be

constituted consisting of agricultural scientists, agricultural administrators, economists and statisticians for a term of three years to provide a better range of consultation. The Chairman of the Commission should be free to add, to either of the Panels, one or two knowledgeable persons for consultations on specific problems or crops.

(Paragraphs 7.9 and 7.10)

46. It is not necessary to clothe the Commission with statutory powers or to give statutory backing to its recommendations. However, the Centre and the States should respect the recommendations of the Commission as a convention, unless there are strong reasons for deviating from the same. On all matters concerning the agricultural price policy and in all seasons, the Government should necessarily consult the Agricultural Prices Commission before taking a decision on the price policy and also keep the Commission informed of the decisions taken.

(Paragraphs 7.16 to 7.18)